COMPREHENSIVE

ANNUAL

FINANCIAL

REPORT

MASSACHUSETTS

PORT

AUTHORITY

Year Ended

June 30, 2003

PREPARED BY: **MASSPORT'S ADMINISTRATION**

AND FINANCE DEPARTMENT

EAST BOSTON, MASSACHUSETTS

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Introduction

Comprehensive Annual Financial Report

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October 24, 2003

To the Members of the Massachusetts Port Authority:

We are pleased to submit the Comprehensive Annual Financial Report ("CAFR") of the Massachusetts Port Authority (the "Authority") for the fiscal year ended June 30, 2003 ("fiscal year 2003"). This report was prepared by the Authority's Administration and Finance Department. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Authority. To the best of our knowledge and belief, this report fairly presents and discloses the Authority's financial position, results of operations, and cash flows as of and for the year ended June 30, 2003 in accordance with the requirements of accounting principles generally accepted in the United States of America ("GAAP"), except where use of accounting principles required under the 1978 Trust Agreement is noted. Additional information intended to enable the reader to gain an understanding of the Authority's financial activities has been included within the CAFR.

The CAFR for fiscal year 2003 describes the Authority's financial performance during a year of fiscal restraint necessitated by the ongoing adjustments in the aviation industry. These adjustments continue to be made in the aftermath of the terrorist attacks of September 11, 2001 ("September 11th"), which contributed to an already weakened economic picture for the aviation industry in general and the airlines in particular as well as adding unprecedented new security requirements and costs. To address the financial impacts from the September 11th events, the Authority adopted and successfully implemented a comprehensive financial recovery plan in fiscal year 2002.

As demonstrated in this CAFR, during fiscal year 2003, the Authority held to the principles of fiscal restraint established in its recovery plan. At the same time, the Authority took a leadership role among U.S. airports in aggressively carrying out new federal security mandates, principal among which was achieving 100% in-line holdbaggage screening. The Authority was the only large domestic airport to achieve this goal by the initial federal deadline of December 31, 2002.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Massachusetts Port Authority for its comprehensive annual financial report for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The CAFR is presented in four sections. The Introductory Section, which is unaudited, contains this letter of transmittal, a narrative providing background with respect to the Authority and an organization chart of the Authority. The Financial Section consists of the Report of Independent Auditors and is followed by the required supplementary information, Management's Discussion and Analysis (MD&A) of the financial condition of the Authority, which is unaudited, ending with the Authority's audited Financial

Statements for fiscal year 2003, with comparative information for fiscal year 2002, and the Notes to the Financial Statements. The Statistical Section, which is unaudited, includes selected financial and operational information, generally presented on a multi-year basis. The Statement of Annual Financial Information and Operating Data, which is unaudited, is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement dated as of August 1, 1997 between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company).

THE AUTHORITY

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act") and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds.

The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. Members are appointed for seven-year terms, with the term of one Member expiring on June 30 of each year. The Chairman of the Authority is appointed by the Governor of the Commonwealth. The management of the Authority and its operations are carried out by a staff headed by the Chief Executive Officer, who is appointed by and reports directly to the Members of the Authority. Under the Enabling Act, the Authority has general power, among other things, (i) to issue revenue bonds and to borrow money in anticipation thereof; (ii) to fix, revise, charge and collect tolls, rates, fees, rentals and charges for use of its projects; and (iii) to maintain, repair and operate and to extend, enlarge and improve its projects. The Authority has the power to acquire property by purchase or through the exercise of the right of eminent domain in certain circumstances. The Authority has no taxing power. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port"), located in Charlestown, South Boston, and East Boston. On January 15, 2000, the Authority also assumed operating responsibility for the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority, the City of Worcester, Massachusetts and the Worcester Airport Commission.

Airport Properties

Logan Airport. The Airport is the principal source of the Authority's operating revenues, operating income, and net assets. In fiscal year 2003, Logan Airport accounted for 79.4 % of the Authority's operating revenues, calculated according to GAAP. In calendar year 2002, based upon total passenger volume, Logan Airport was the most active in New England, the 20th most active in the United States, and the 37th most active in the world, according to the Airports Council International ("ACI"). The Airport has been classified as a large traffic hub by the Federal Aviation Administration ("FAA"). Airports are classified as large hubs if they enplane over 1% of the total passengers enplaned by domestic airlines in the United States. Enplaned plus deplaned passengers at the Airport for the fiscal year 2003 totaled approximately 22.5 million, excluding general aviation. This represents a 2.1% increase from the 22.1

million passengers that used the Airport in fiscal year 2002. The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions, and landing fees.

Airline Passenger Services. As of June 30, 2003, airline service at Logan Airport, both scheduled and non-scheduled, was provided by 54 airlines, including 7 U.S. major air carrier airlines, 17 non-U.S. flag carriers, and 12 regional and commuter airlines. In fiscal year 2003, the two carriers that carried the greatest market share of passengers at the Airport, Delta Air Lines (including Delta Express/Song and Delta Shuttle) and American Airlines, carried approximately 36.4% of the total passengers using the Airport. The six carriers with the highest market shares – Delta Air Lines, American Airlines, US Airways (including US Airways Shuttle), United Air Lines, Continental Airlines, and Northwest Airlines – carried approximately 69.6% of all passengers traveling through the Airport during fiscal year 2003. The largest market share for fiscal year 2003 was held by Delta, with approximately 18.9% of all passengers traveling through the Airport. On August 11, 2002, US Airways Group filed for reorganization under Chapter 11 of the United States Bankruptcy Code. On December 9, 2002, UAL Corp., parent of United Air Lines, filed for bankruptcy protection under federal law. On March 31, 2003, US Airways and its affiliates emerged from bankruptcy protection. Upon emergence from bankruptcy protection, US Airways and its affiliates assumed all leases and executory contracts relating to their operations at Logan Airport. United has not rejected its executory leases at Logan Airport, and has continued to operate at the Airport and make its rental payments with respect to rent due after the date it filed for bankruptcy protection. At this time, the Authority does not expect that these air carrier bankruptcies will materially affect the results of the operation or financial condition of the Authority. On September 30, 2003, JetBlue Airways announced it would commence service from Logan Airport to Denver and three locations in Florida in January 2004.

Cargo Airline Services. Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, in calendar year 2002 the Airport ranked 17th in the nation in total air cargo volume. As of June 30, 2003, Logan Airport was served by 9 all-cargo and small package/express carriers. During fiscal year 2003, the companies with the largest shares of enplaned and deplaned cargo at the Airport, based upon cargo tonnage, were Federal Express, American Airlines, United Parcel Service, Delta Air Lines, British Airways and United Air Lines. In fiscal year 2003, total combined cargo and mail volume was approximately 818 million pounds. The total volume of air cargo and mail handled at the Airport decreased in fiscal year 2003 by 2.9% compared to fiscal year 2002.

Hanscom Field. Hanscom Field is located principally in the town of Bedford, Massachusetts, approximately 15 miles northwest of Boston. The Authority anticipates that Hanscom Field will continue as a general aviation reliever to Logan Airport, as well as continue to develop as a niche commercial service market for regional aircraft. General aviation operations, including business related activity, charters, and light cargo, as well as flight training and recreational flying, currently represent the vast majority of activity at Hanscom Field. Shuttle America, a regional airline, which commenced commercial service from Hanscom Field in September 1999, operates from Hanscom Field as US Airways Express.

Worcester Regional Airport. On January 12, 2000, the Authority entered into the Worcester OA for five years with the City of Worcester, Massachusetts and the Worcester Airport Commission. Pursuant to the Worcester OA, the Authority operates Worcester Regional Airport. Under the Worcester OA, the Authority pays a percentage of the net operating deficits (if any) for Worcester Regional Airport. For fiscal year 2003, the Authority paid 100% of such deficit, plus certain of the Authority's direct expenses associated with operation of Worcester Regional Airport, totaling approximately $1.9 million. It is anticipated under the Worcester OA that, within five years of the date of execution of the Worcester OA, the Authority could assume title to Worcester Regional Airport. However, legislative action would be required in order for the Authority to take title to Worcester Regional Airport.

Tobin Memorial Bridge

The Tobin Memorial Bridge, which is a part of U.S. Route 1, extends across the Mystic River from the Charlestown section of Boston to the City of Chelsea, and connects Boston's Central Artery and the Northeast Expressway. The Bridge carries an average of 31,000 in-bound vehicles per day. The Authority collects tolls from in-bound users of the Bridge. The toll for passenger cars was increased to $2.00 on January 1, 2002. The total number of vehicles using the Bridge in fiscal year 2003 decreased by approximately 2.7% to approximately 11.3 million from the 11.6 million in fiscal year 2002, while Bridge revenues increased by approximately 28.2% to $22.3 million for fiscal year 2003 from $17.4 million in fiscal year 2002, primarily due to the toll increase that went into effect on January 1, 2002.

Port Properties

The Authority owns, develops, operates, and maintains Port Properties comprising certain waterfront properties transferred to it from the Commonwealth in 1959, as well as additional properties subsequently acquired. The Authority administers these Port Properties through two divisions: the Maritime Department and the Business Development Department.

The Authority, through its Maritime Department, owns, manages, develops, operates, and markets the public cargo and passenger terminals of the Port. Boston is New England's major port and the only port in the region providing a full range of container handling, cruise ship, bulk, breakbulk, automobile processing, petroleum, and ship repair services. The Authority's maritime business activities include cargo handling (including containers, bulk materials, and automobiles), serving as both a point of embarkation and port of call destination for cruise ships, and leasing property. All container operations are consolidated at Conley Terminal in South Boston, and an automobile preparation, processing, and distribution facility is located at Moran Terminal in Charlestown. The total number of cruise passengers decreased in fiscal year 2003 by 15.9% compared to fiscal year 2002 but grew 11.4% compared to fiscal year 2001, reflecting both a trend of continued growth as well as a large one-time increase in fiscal year 2002 due to passengers diverted from New York City following September 11th. Port activity for containers increased 18.8% over fiscal year 2002, primarily as a result of new far-east service provided by COSCO, while automobiles and bulk tonnage decreased by 63% (reflecting the relocation of Volkswagen's importing business from Moran Terminal to Rhode Island) and 21.6%, respectively.

The Business Development Department plans, develops, and manages real estate for maritime, industrial, and commercial uses. The Authority believes that in the long term this diversified land use strategy will provide a non-maritime revenue stream to help finance the continuing capital development of the Port's cargo and passenger terminals, reducing the burden on the Authority's other revenue sources.

LOCAL ECONOMY

The Boston area economy is an important factor in the Authority's operations, although the regional and national economies also play an important role, as passengers and cargo from across the United States and around the world travel to and from Boston via Logan Airport and the Port of Boston. The Commonwealth is home to a number of well-known and respected medical and educational institutions, providing relative stability to its economy. Tourism is also a significant component of the Commonwealth's economy.

The national and state economies experienced sluggish economic growth in fiscal year 2003 with continued weakness in the labor market. According to the Bureau of Labor Statistics, the Commonwealth's seasonally adjusted unemployment rate of 5.6% as of June 30, 2003, while below the national seasonally adjusted unemployment rate of 6.4% as of June 30, 2003, was higher than the Commonwealth's seasonally adjusted unemployment rate of the prior year, which was 5.3% as of June 30, 2002.

As of June 30, 2003, both national and local economic indices were showing an increased likelihood of improved economic growth in the near future. The Leading Economic Index for Massachusetts published as a joint effort by the University of Massachusetts and the Federal Reserve Bank of Boston was positive for four consecutive months through June 2003.

MAJOR INITIATIVES

Capital Program

The Authority's fiscal year 2003-2007 Capital Program (the "FY03-FY07 Capital Program") was approved by the Members of the Authority in January 2003 and includes total expenditures of $1.74 billion for ongoing projects and projects to be commenced during the five-year program period, including $490 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources.

The FY03 – FY07 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operational enhancements, maximizing FAA and Transportation Security Administration ("TSA") grant receipts, securing and utilizing a $4.50 passenger facility charge ("PFC"), and avoiding increasing Airport rates and changes to levels that could lead to significant service reductions.

The FY03-FY07 Capital Program funds the renovations to Logan Airport's terminals to accommodate the TSA's in-line screening of hold baggage. The Capital Program also includes the construction of projects comprising Logan Modernization. Begun in 1995, Logan Modernization is improving and modernizing buildings, roadways and other landside facilities in order to address problems of terminal overcrowding, roadway congestion and inadequate parking facilities. Several of the Logan Modernization projects were placed into service in fiscal year 2003 and construction continues on the International Gateway and the Airport Roadways. The FY03-FY07 Capital Program also includes important initiatives to address the current security challenges facing the aviation industry, the acquisition of roadway segments from the Central Artery/Tunnel ("CA/T") Project, significant capital improvements to maintain and enhance Logan Airport's airfield, security enhancements and parking improvements at the Airport, residential soundproofing in the communities neighboring Logan Airport, enhancements to the Maritime and Business Development Properties and the Bridge, and the maintenance and renewal of the Authority's other existing facilities.

The Authority expects to revise the Capital Program for fiscal years 2004-2008 during the winter of 2004.

Financial Planning

In developing the FY03-FY07 Capital Program, the Authority has made an exhaustive review of funding sources available to the Authority for such purposes. In May 2003, the Authority sold additional debt to fund $254,250,000 of projects, including airfield maintenance, improvements to the Airport garage, and the portions of the Terminal A Redevelopment that the Authority is committed to finance. Other financial

accomplishments achieved in fiscal year 2003 include the award of a $30 million FAA grant for security improvements and the submission to the FAA of a request for a $91.2 million Letter of Intent to fund the Airside Improvements. While the renovation of Logan Airport's terminals to accommodate the TSA's in-line screening of hold baggage was accomplished prior to any commitment of federal funding, in June 2003 the Authority signed a Memorandum of Agreement with the TSA for $87 million to fund these improvements. The Authority expects to be reimbursed for 75% of the cost of such improvements during federal fiscal years 2003-2005.

If significant changes occur in the amounts available from expected funding sources, or if the costs of certain projects increase significantly, the Authority will reduce the scope of proposed projects, the overall capital program or both. For example, in October 2001, as part of its financial recovery plan, the Authority made significant adjustments to the capital program then in effect. Then in June 2002, the Authority again adjusted its capital program in order to dedicate $146 million to the terminal retrofits required to support the TSA's in-line hold baggage screening.

Many of the commitments within the Authority's capital plan, such as the International Gateway project that is doubling the size of Terminal E or the double-decking of the Airport's Roadways, have already been authorized by the Authority and extend over several years. Nevertheless, each project within its capital program is a separate "module" which the Authority approves individually along with a separate project budget. This permits the Authority to undertake the construction and financing of each of these additional projects independently of other capital projects. The Authority believes that the modular design of the capital program significantly increases its ability to make needed adjustments in capital spending.

Fiscal Restraint

During fiscal year 2003, the Authority continued to exercise fiscal restraint consistent with its Fiscal Recovery Plan adopted immediately after September 11th. Such restraint was also necessary in light of reduced passengers and operations at Logan Airport, which, though stabilized, remained at levels below those prior to September 11th and the economic downturn. At the same time, the Authority took a leadership role among domestic U.S. airports in achieving new standards in airport security, notably the implementation of 100% in-line hold baggage screening, requiring significant new dedicated resources.

Accordingly, the Authority adopted a budget for fiscal year 2003 setting a spending limit that was lower than the original fiscal year 2002 operating budget while providing over $12.5 million in new funds for security and funding insurance costs at triple the previous levels. The budget restored some service levels that had been cut back in the Fiscal Recovery Plan but held the line on positions, salaries, expenses and overtime in all areas except public safety. The authorized position count remained 15% below the pre-September 11th level. As described below, a comprehensive organizational realignment was achieved despite this restriction on personnel, aided by an early retirement incentive plan.

At the CEO's request, Authority staff conducted a mid-year review of revenues and expenses. Completed in January 2003, the review generally affirmed the original budget but indicated that certain categories of revenue would likely fall below projections and that expenses might exceed projections because of higher than budgeted snow and ice removal costs associated with an unusually severe winter. Accordingly, some budget adjustments were made mid-year, and finance staff continued an intensive review process for all spending requests throughout the year, a process that had been initiated after September 11th. Additionally, revenues were enhanced in the second half of the year by restructuring short-term parking rates and increasing the parking fee at Terminal B from $22 to $24 per day effective April 1, 2003. As a result of these actions, the final results for fiscal year 2003 were slightly better than forecasted in the budget. In accordance with the 1978 Trust Agreement (see Note B to the Financial Statements), revenues

of $373.7 million exceeded the budget by approximately $5.2 million, and operating expenses of $223.8 million were nearly $1.3 million under the fiscal year 2003 expense budget.

On a cash basis, the Authority's continued fiscal restraint worked well. Cash collections during fiscal year 2003 were sufficient to cover all debt service deposits, make deposits to the Maintenance Reserve Fund and the Payment in Lieu of Taxes Fund and make a positive contribution to the Improvement and Extension Fund, totaling $31.8 million for the year. Cash collections (excluding PFCs) during fiscal year 2003 were 8% greater than the cash collected during the same period of fiscal year 2002.

All of the Authority's general revenue bonds and PFC bonds are secured by debt service reserve funds that are fully funded with cash. The debt service reserve funds for the Bonds secured by the 1978 Trust Agreement hold $93.6 million to support the approximately $74 million in annual debt service on the Authority's general revenue bonds; in fiscal year 2003 the Authority generated sufficient net revenues to achieve 2.02x coverage on these Bonds. Similarly, there is $25.6 million in the debt service reserve fund securing the PFC bonds to support the roughly $21.5 million in annual debt service on the PFC bonds; PFC debt coverage in fiscal year 2003 was 1.69x.

The rating agencies recognized the value of the Authority's fiscal restraint, revenue diversity and underlying market strengths as the Authority planned its largest-ever new money bond issue in the Spring of 2003, its first issue in over three and one-half years. All three agencies confirmed their ratings at that time. As of June 30, 2003, the Authority's revenue bonds are rated Aa3 with a negative outlook, AA- with a stable outlook, and A+ with a stable outlook by Moody's, Fitch and Standard and Poor's, respectively.

Organizational Realignment

Fiscal year 2003 was the Authority's first full year under the leadership of CEO Craig P. Coy, who was appointed in April of 2002, and Chairman John Quelch, who took office in July of 2002. The selection of these leaders served the Authority's goals of securing experienced professional management and achieving a more business-oriented approach to the operations of the Authority and its facilities. The appointment of George K. Hertz, an executive with over twenty years of private sector business experience, as Executive Vice President in August 2002 furthered these goals.

Several major organizational initiatives were carried out during fiscal year 2003. The Board performed a review and revision of its corporate governance policies and procedures, including reformulation of its committees and the development of new terms of reference and responsibilities for each committee. Under the direction of the CEO, staff planned and implemented a comprehensive yet focused organizational realignment designed to achieve greater operating effectiveness and enhanced focus on financial performance throughout the Authority, with profit/loss responsibility assigned to the key operating units. While far-reaching, this realignment was achieved within existing authorized positions at the post-fiscal recovery level (reduced by 15% from before September 11th), aided by an early retirement program in which over 50 employees participated. Mirroring the new organizational structure and business focus, revised metrics were developed for consistent, ongoing performance measurement. Finally, the Authority's security team was strengthened by the addition of a newly-created position of Director of Corporate Security and the appointment of Dennis Treece to the position. Mr. Treece's goals include ongoing security risk assessment and response and coordinating the Authority's security initiatives in cooperation with the relevant federal, state and local security agencies.

Security

The Authority has taken, and will continue to take, a leadership role in the development of transportation security solutions.

- The Authority has developed and implemented strategies, policies, and programs in cooperation with its national and international security experts that go well above and beyond the security measures required by the federal government.
- In the two years since September 11th, the Members of the Authority have authorized $186.3 million for security infrastructure. The TSA, the Authority's partner in its security effort, has spent an additional $51 million at Logan Airport on equipment for passenger and baggage screening.
- The Authority conducts and sponsors meetings and security forums in order to review and determine priorities for action, such as the daily security meeting attended by key decision makers airport-wide, including members of the Authority's operations and security teams, Massachusetts State Police, the Authority's Fire and Rescue team, FAA, TSA, Federal Air Marshals, U.S. Customs, airlines, and the Authority's major tenants and construction contractors.
- The Authority is an active member of the state's anti-terrorism task force, composed of federal, state and local law enforcement and security professionals.
- The Authority has invested heavily in anti-terrorist training. Logan Airport is one of only three airports in the nation with an on-site bomb and weapons of mass destruction response team. In addition, the Authority has also formed a first-in-the-nation Anti-terrorism Unit comprised of specially trained and equipped officers.
- The Authority has gained national attention for its Behavior Pattern Recognition methods which are part of a formal, ongoing training program for its airport employees.
- Logan Airport became the first major U.S. airport to implement a100% in-line hold baggage screening system. The Authority is also the first in the nation to test the screening of air cargo destined for commercial aircraft.
- By next year, State Police troopers on foot patrol will use handheld wireless computers enabling them to conduct criminal history and license plate checks via a secure wireless network.
- A newly constructed vehicle access gate to Logan Airport's airfield is the first of its kind at a commercial airport and provides a crash-resistant barrier to unauthorized trucks or cars.
- Legislation proposed by the Authority and enacted in 2002 establishes a protective security zone around Logan Airport's waterside perimeter.
- Hanscom Field in Bedford will become the only airport of its size to implement a security badge program requiring FBI fingerprint background checks to access the airfield.
- To enhance protection of the Authority's maritime assets, it is installing surveillance and intrusion detection cameras and perimeter fencing at its maritime facilities. The Authority is working with U.S. Customs to screen one of the highest percentages of cargo containers in the U.S. ports.
- On the Tobin Bridge, the Authority is implementing an enhanced security program, including additional detection systems and increased police patrols and inspections.

FINANCIAL INFORMATION

The financial information included in the Financial Section of this report presents the financial position of the Authority as of and for the fiscal year ended June 30, 2003. The concept of financial position focuses on existing resources and claims upon those resources.

Accounting System and Budgetary Control

The Authority follows accounting principles generally accepted in the United States of America applicable to governmental enterprise funds. Accordingly, the Authority's financial statements are prepared on an accrual basis of accounting.

To provide the Authority with reasonable assurance that its financial resources are safeguarded against waste, loss, and misuse, and that reliable accounting and financial data are timely, complete, relevant, accurate, and fairly disclosed in reports, the Authority has established a system of internal controls. These internal controls provide the Authority with a solid base of reliable financial and accounting records from which financial statements are prepared. The Authority's Internal Audit function maintains oversight over the key areas of the Authority's business and financial processes and controls, and reports directly to the Audit and Finance Committee of the Authority's Board.

Management has established and maintains a system of internal controls to ensure that material financial information required to be disclosed by the Authority in its CAFR is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures provide reasonable assurance as to the integrity and accuracy of the financial statements, in all material respects. The concept of reasonable assurance is based on the recognition that the cost of controls should not exceed the relative benefit of such controls, and requires estimates and judgment by management.

An annual budget is prepared on the basis established by the 1978 Trust Agreement. The operating and capital budgets are prepared and reviewed on a non-GAAP basis. Budgetary control and evaluation are effected by comparing actual interim and annual results with the budget. The Authority compares budget and non-GAAP actual financial statements on a monthly basis and prepares unaudited GAAP financial statements on a quarterly basis.

Single Audit

As the recipient of federal financial assistance, the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs. This internal control is subject to periodic evaluation by management and the internal audit staff of the Authority. The Authority's single audit for the fiscal year ended June 30, 2003 noted no matters involving the internal control over the Authority's financial reporting and its operation that were considered to be material weaknesses.

Passenger Facility Charge

In 1993, the Authority's application to levy a PFC of $3.00 was approved by the FAA. The charge has been imposed on tickets sold on and after November 1, 1993. In February 1998, the FAA authorized the Authority to increase its collections to $927.4 million. The FAA has approved use of PFCs by the Authority to finance the Authority's Residential Sound Insulation Program, the Terminal E Modernization project, the Circulating Roadways project, the Elevated Pedestrian Walkways project, and the International Gateway project. Upon the issuance of the Authority's PFC Revenue Bonds, Series

1999A and 1999B (the "PFC Bonds") in May 1999, the Authority's PFCs were pledged pursuant to the PFC Trust Agreement to support the PFC Bonds and to fund construction of eligible portions of the projects described above. In the event that PFC Bond proceeds, PFCs and other funding sources are inadequate to meet anticipated project costs, projects may be deferred, altered, or canceled.

Historically, PFC revenues have grown from $31.2 million in fiscal year 1995 to $36.3 million in fiscal year 2001. However, due to the significant reductions in enplanements at Logan Airport in fiscal years 2002 and 2003, PFC collections in fiscal year 2002 declined by approximately 19% from fiscal year 2001 to $29.4 million and declined slightly more in fiscal year 2003 to $29.1 million. Through June 30, 2003 the Authority had collected $336.7 million in PFC revenue. Please refer to the PFC Revenue line of the nonoperating revenues set forth in Table S-1 in the Statistical Section for an historical statement of PFC collections.

Cash and Investment Management

All investments of Authority funds are made in accordance with the investment policy adopted in 2000 by the Members of the Authority, and the Policies and Procedures adopted by the Investment Oversight Committee in August 2003. The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the Massachusetts Municipal Depository Trust (MMDT), in bank time deposits, and in repurchase agreements. All investments are held on behalf of the Authority by the Authority's trustees or a custodian, but managed by the Authority.

The certificates of deposit and the repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The 1978 Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase have a fair value at least equal to the cost of the agreement plus accrued interest.

Certain funds that will be used for bond reserve requirements and debt service are invested in long-term instruments. An annual cash flow projection is developed for all capital projects and bond funds. Investment maturities are scheduled to comply with the investment goals of the Authority's investment policy, which are, in descending order of priority, (1) to preserve capital, (2) to provide liquidity to meet payment obligations, and (3) to generate interest income.

Pension and Retirement Fund Operations

Chapter 487 of the Massachusetts Acts of 1978 ("C. 487") provided for the establishment of the Massachusetts Port Authority Employees' Retirement System (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to 1978, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay-as-you-go" method. Pursuant to C. 487, the Authority employees' rights and benefits under the state plan were transferred to the Plan, and the Authority established a separate pension fund. The Plan is a single employer plan which provides retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries, and contingent annuitants. The Plan is a contributory defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to Plan participants. Total contributions from employees to the Plan were $5,754,522 for the Plan Year ended December 31, 2002.

Risk Management

Under the 1978 Trust Agreement, the Authority is required to maintain a risk management and insurance program that is substantially in compliance with the recommendations of a Risk Management Consultant. The Authority maintains a risk management program consisting of procedures for risk transfer where practical and purchasing of property and casualty insurance, including business interruption coverage, where the cost is reasonable. The Authority also self-insures certain risks, such as workers' compensation, for both the Authority's employees and employees involved in the Authority's Owner Controlled Insurance Program. Both of these self-insured programs are administered with the assistance of a third-party administrator. The funding for deductibles and self-insured retentions is maintained in a dedicated self-insurance account. See Table S-4 for a summary of the Authority's coverages and insurance providers.

Contingent Liabilities

As of October 1, 2003, the Authority is aware of 109 lawsuits pending against the Authority and other entities relating to the September 11^{th} terrorist attacks. In addition, the Authority has been served with multiple Notices of Claim related to the terrorist attacks. The Aviation and Transportation Security Act, passed in November 2001, limits the liability of various entities, including airport sponsors such as the Authority, for the events of September 11^{th} at the limit of each entity's liability insurance coverage. The Authority has liability insurance in effect to cover the incidents of September 11^{th} in the amount of $500,000,000 per occurrence. Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims. Please refer to Footnote L to the financial statements for a description of material pending litigation.

OTHER INFORMATION

Independent Audit

Pursuant to the 1978 Trust Agreement, an audit of the Authority's financial statements for fiscal year 2003 has been completed by the Authority's independent auditors, PricewaterhouseCoopers LLP. Their report is included herein.

Additional Information

For additional information concerning the Authority, please see the Authority's award winning website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's Annual PFC Statement of Financial Information and Operating Data for fiscal year 2003 (the "PFC Annual Update") will be filed with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR") designated by the Security and Exchange Commission ("SEC") in satisfaction of the Authority's obligations under SEC Rule 15c2-12 with respect to certain bonds issued pursuant to the PFC Trust Agreement. Copies of the PFC Annual Update are also available from the Authority. Copies of of the Annual Statements prepared pursuant to Rule 15c2-12 with respect to the Authority's bonds issued under both the 1978 Trust Agreement and the PFC Trust Agreement for prior years are available from the NRMSIRs and from the Authority. The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Acknowledgments

The completion of this report could not have been accomplished without the efficient and dedicated services of the entire Administration and Finance Department, the Communications Department, and the Legal Department. We would like to express our appreciation to all members of these departments who assisted and contributed to its preparation.

Very truly yours,

/s/ Craig P. Coy

Craig P. Coy
Chief Executive Officer

/s/ Leslie A. Kirwan

Leslie A. Kirwan
Director of Administration and Finance
Secretary-Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Massachusetts Port Authority

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

William Patrick Pate

President

Jeffrey L. Esser

Executive Director

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MASSACHUSETTS PORT AUTHORITY

BOARD MEMBERS

JOHN A. QUELCH, *Chairman*

LOIS J. CATANZARO | **JOHN COGLIANO, JR.** | **JAMES M. COULL**
PAUL D. FOSTER | **JOHN F. MONAHAN, JR.** | **SUSANA M. SEGAT**

G. Titus
Director of Internal Audit

D. Treece
Director of Corporate Security

C. Coy
Chief Executive Officer

G. Hertz
Executive Vice President

M. Leone
Port Director

T. Kinton
Director of Aviation

M. O'Meara
Bridge Director

L. Kirwan
Director, Administration & Finance/ Secretary-Treasurer

L. Richards
Chief Development Officer

C. Gordon
Director, Capital Programs/ Logan Modernization

C. Brennan
Director of Communications/ Public Affairs

D. Mackey
Chief Legal Counsel

F. Anglin
Director of Information Services and Telecommunications

M. Bowen
Director of Human Resources

Vacant
Director of Diversity

P. Day
Director of Labor Relations/Labor Counsel

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Authority Board Members

The Authority consists of seven members appointed by
the Governor of Massachusetts to staggered terms of seven years each.
Members serve without compensation.

John A. Quelch Chairman
James M. Coull Vice Chairman
Lois J. Catanzaro
John Cogliano, Jr.
Paul D. Foster
John F. Monahan, Jr.
Susana M. Segat

Executive Staff

Craig P. Coy Chief Executive Officer
George K. Hertz Executive Vice President
Leslie A. Kirwan Director of Administration and Finance/Secretary-Treasurer

Francis X. Anglin Director of Information Services and Telecommunications
Marie H. Bowen Director of Human Resources
Carole Brennan Director of Communications/Public Affairs
Patricia A. Day Director of Labor Relations/Labor Counsel
Christopher M. Gordon Director/Capital Programs/Logan Modernization
Thomas J. Kinton, Jr. Director of Aviation
Michael A. Leone Port Director
David S. Mackey Chief Legal Counsel
Mary Jane O'Meara Bridge Director
Lowell L. Richards, III Chief Development Officer
Gail S. Titus Director of Internal Audit
Dennis P. Treece Director of Corporate Security

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Massachusetts Port Authority

Financial Statements with
Management's Discussion and Analysis
June 30, 2003 and 2002

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One International Place
Boston MA 02110
Telephone (617) 478 5000
Facsimile (617) 478 3900

Report of Independent Auditors

To the Members of the Massachusetts Port Authority:

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the Massachusetts Port Authority (the "Authority") (a public instrumentality of The Commonwealth of Massachusetts) at June 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management's Discussion and Analysis on pages 23 through 36 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information presented on pages 74 to 77 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

September 19, 2003

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MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

Introduction

The following discussion and analysis of the financial performance and activity of the Massachusetts Port Authority (the "Authority") is intended to provide an introduction to and an overview and analysis of the basic financial statements of the Authority for the year ended June 30, 2003 with selected comparative information for the year ended June 30, 2002. The management of the Authority has prepared this discussion and it should be read in conjunction with the financial statements and the notes thereto, which follow this section. Management has established and maintains controls and procedures designed to ensure that material information required to be disclosed by the Authority in its annual financial statements is recorded, processed, summarized and reported to management in a timely manner. Management has reviewed the Authority's current controls and procedures within the past ninety days and believes that such controls and procedures are adequate in order to record, process, summarize and report to management in a timely manner material information required to be disclosed by the Authority in its annual financial statements.

The Authority was created by and exists pursuant to Chapter 465 of the Massachusetts Acts of 1956 (as amended to date, the "Enabling Act"), and is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth"). The Enabling Act and the Trust Agreement dated as of August 1, 1978, as amended (as so amended, the "1978 Trust Agreement") between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee, and the PFC Revenue Bond Trust Agreement, dated as of May 6, 1999, as amended (as so amended, the "PFC Trust Agreement") between the Authority and The Bank of New York, as trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use of revenues credited to such funds. The Enabling Act provides that the Authority shall consist of seven Members appointed by the Governor of the Commonwealth. The Authority's financial statements are not a component of the Commonwealth's financial statements.

The Authority's facilities include airport properties, consisting of Boston-Logan International Airport (the "Airport" or "Logan Airport") and Laurence G. Hanscom Field ("Hanscom Field"); the Maurice J. Tobin Memorial Bridge (the "Bridge"); and various port properties (the "Port"), located in Charlestown, South Boston, and East Boston. The Authority also operates the Worcester Regional Airport pursuant to an operating agreement (the "Worcester OA") among the Authority and the City of Worcester, Massachusetts and the Worcester Airport Commission.

Logan Airport is the most active airport in New England and provides both international and domestic commercial service. It is the primary source of the Authority's revenues and net revenues. Hanscom Field is the region's premier general aviation airport and provides niche commercial service. Worcester Regional Airport serves the air transport needs of Massachusetts's second largest city. The Port of Boston is New England's major port and provides a full range of services, from cruise ship to container ship handling. The Bridge is one of Greater Boston's primary cross-harbor roadway connections and is a part of U.S. Route 1. In addition to operating its facilities, the Authority is committed to providing the modern transportation infrastructure necessary to support the needs of Boston, Massachusetts and New

England. In January 2002, the Authority approved a $1.74 billion five-year capital program to continue the modernization of its facilities, especially Logan Airport and the Port of Boston, that was begun in 1995. The Authority expects to utilize $1.25 billion of Authority funds and $490 million of third party or non-recovery financing to support these projects.

The Authority is self-supporting and uses revenues from landing fees, fees from terminal and other rentals, revenues from concessions, Bridge tolls, ground rents, and other fees and charges to fund operating expenses. The Authority has no taxing power and is not taxpayer funded. The Authority's capital program is funded by bonds and notes issued by the Authority, federal grants, and Authority revenues, including Passenger Facility Charges ("PFCs"). The Authority's bonds are secured solely by the Authority's revenues.

The Financial Statements

The Authority's financial report includes three financial statements: the Balance Sheets; the Statements of Revenues, Expenses and Changes in Net Assets; and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"), including GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* ("GASB 33") and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* ("GASB 34") as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*.

The Balance Sheets demonstrate that the Authority's assets equal liabilities plus net assets. The net assets are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. The component of net assets comprising invested in capital assets, net of related debt, includes restricted capital assets, is net of accumulated depreciation and reduced by the outstanding balances of any outstanding debt that is attributable to the acquisition, construction or improvement of those assets.

GASB 33 requires that non-exchange transactions (such as federal grants) and exchange-like transactions (such as PFCs) be recognized as revenue. The Authority's adoption of GASB 33 eliminated the direct reporting of grants on the Authority's Balance Sheets. The Statements of Revenues, Expenses and Changes in Net Assets categorize revenues and expenses as either operating or non-operating based upon management's policy as established in accordance with definitions set forth in GASB 33 and 34. Significant recurring sources of the Authority's revenues, including PFCs, investment income and federal capital grants, are reported as non-operating revenues. Operating revenue for the years ended June 30, 2003 and 2002 totaled $373.8 million and $317.9 million, respectively. Operating expense for the years ended June 30, 2003 and 2002 totaled $348.4 million and $300.9 million, respectively. In fiscal year 2003, the Authority had net nonoperating expenses of $9.2 million, comprised of revenues of $40.6 million and expenses of $49.8 million. In fiscal year 2002, the Authority realized net nonoperating revenues of $8.6 million, comprised of revenues of $49.3 million and expenses of $40.6 million. Capital grant revenues for the years ended June 30, 2003 and 2002 are $44.0 million and $15.5 million, respectively.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities, and investing activities. Cash and cash equivalents on June 30, 2003 were $209.5 million and on June 30, 2002 were $92.0 million.

Authority's Activity Highlights

During fiscal year 2003, the Authority's financial position stabilized as the Authority continued to exercise fiscal restraint consistent with the fiscal recovery plan adopted in fiscal year 2002, and the Authority took a leadership role among U.S. airports in establishing new standards for aviation security. Despite a reduced number of passengers and operations at Logan Airport, the Authority was able to end the fiscal year with Operating Income of $25.4 million, a 49% increase over the prior fiscal year. Responding to both on-going financial instability in the aviation industry and additional capital and operating costs related to achieving heightened security, the Authority continued to follow the principles of the comprehensive financial recovery plan it implemented immediately following September 11, 2001. The operating budget for fiscal year 2003 sustained the large reduction in personnel and other costs that were achieved in the fiscal recovery plan, while providing for significant new security costs and large increases in the cost of insurance.

Cost Recovery. The Authority earned $69.0 million in landing fees in fiscal year 2003, a 39% increase over fiscal year 2002, when the Authority earned $49.7 million in landing fees. Currently, activity levels at Logan Airport remain well below levels prior to September 11, 2001 ("September 11th"). However, enplanements and landed weights appear to have stabilized, albeit at these lower levels. During fiscal year 2003, passenger volume was 18% below that of fiscal year 2001 levels and 2% above the levels of fiscal year 2002, while landed weights for fiscal year 2003 were 20% below fiscal year 2001 and 1.5% below fiscal year 2002. Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historical capital costs and projected landed weights and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses.

The Authority establishes landing fee rates based on projected aircraft landed weights for each year. Any variance from these projections generally is adjusted in the next year's calculation, although the Authority may adjust the landing fee during the year. For example, the landing fee for fiscal year 2003 increased significantly, largely due to decreases in actual and projected landed weights. The landing fee for fiscal year 2003 increased by $1.41 per thousand pounds of landed weight over the landing fee for fiscal year 2002. Of the $1.41 increase in the landing fee, approximately $1.14 was attributable to reduced landed weights, $0.59 of which was due to an adjustment between the originally projected landed weights for fiscal year 2002 and the actual landed weights, which were approximately 20% below the original budget, and $0.55 of which resulted from using a lower projection of landed weights for fiscal year 2003 over which to recover the costs attributable to the airfield cost center. The remaining $0.27 of the increase was due to increased costs due to security requirements as well as new facilities being added to the rate base. Unpaid landing fees are generally recovered by amortizing bad debts over five years and adding such amount to the landing fee.

Security Initiatives. The Authority has undertaken a number of new security initiatives, the most ambitious of which are the terminal modifications required to house the Transportation Security Administration's ("TSA") new baggage screening equipment and personnel. In June 2002, the Airport became the first U.S. airport to receive the TSA's approval for its in-line hold baggage screening program, and less than three weeks later, the Authority commenced construction of $146 million of terminal modifications required to permanently house the TSA's program. On January 1, 2003, the TSA commenced screening all checked baggage at Logan Airport for explosives. The Authority's terminal

modifications integrating the TSA's explosive detection devices with the various in-line baggage systems at the Airport are substantially complete. In September 2002, the FAA awarded a discretionary $30 million Airport Improvement Program grant to the Authority for this project. The Authority has also entered into a memorandum of agreement with the TSA providing for grant funding by the TSA of up to 75% of the remaining costs of the project.

Well before the events of September 11[th], the Authority hired outside experts to suggest ways to improve security at the Airport and other Authority facilities. The FY03-FY07 Capital Program described below budgets $30.1 million for such projects at the Airport, in addition to the $146 million for hold baggage terminal modifications described above. The capital plan for the Authority's other facilities also includes investments designed to increase security. The security enhancement program at the Airport includes renovations to the South and North gates to the public airfield, security walls at Terminal E, security cameras at various security checkpoints, the purchase and installation of bombproof trash barrels, and other measures designed to increase perimeter security at the Airport.

New International Gateway Opens. An approximately 410,000 square foot addition to Terminal E, the South Addition, including the new ticketing areas and the new roadway system and curbs, opened for use in May 2003. The International Gateway project consists of renovating approximately 170,000 square feet and adding approximately 410,000 square feet to Terminal E. The project will provide for ticketing, U.S. Customs and Immigration facilities, other federal inspection services facilities, and concessions. Construction commenced in August 1998. A new double-decked roadway system is also being constructed at Terminal E in order to reduce curb and roadway congestion. The remainder of the International Gateway project is expected to be completed by March 2005. The project is being financed principally (over 80%) from PFCs.

FY03-FY07 Capital Program. On January 16, 2003, the Authority approved its capital program for fiscal years 2003 through 2007 (the "FY03-FY07 Capital Program"). The FY03-FY07 Capital Program includes total expenditures of $1.74 billion for ongoing projects and projects to be commenced during the five-year program period, including $490 million in projects that will only be executed if they are funded through third-party or non-recourse funding sources. The FY03-FY07 Capital Program represents a comprehensive and coordinated capital improvement and financial master plan for all Authority facilities. The program was developed to be consistent with the Authority's goals of funding security initiatives and airfield operation enhancements, maximizing FAA and TSA grant receipts, securing and utilizing a $4.50 PFC, and avoiding increasing Airport rates and charges to levels that could lead to significant service reductions. In 1995, the Authority embarked on a major capital program to repair, modernize and revitalize the physical plant at Logan Airport and to improve the transportation infrastructure at each of the Authority's facilities. Continuing the efforts to renew Logan Airport and the Authority's other facilities, the FY03-FY07 Capital Program allocates $1.25 billion of Authority funding to important initiatives to address the current security challenges facing the aviation industry, to maintain and enhance the public airfield, to add significant improvements to the public parking facilities at the Airport, and to upgrade each of the Authority's facilities generally. At the same time, the Authority continues to strive to avoid or minimize adverse local and regional impacts associated with operations at the Airport and the Authority's other facilities.

2003 Bond Issue. On May 29, 2003, the Authority issued $388,195,000 of its Revenue and Revenue Refunding Bonds, Series 2003-A, B and C (the "2003 Bonds"). The 2003-A Bonds and the 2003-B Bonds were issued, in part, to finance a portion of the FY03-FY07 Capital Program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A and the 2003-C Bonds were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's Revenue Refunding Bonds, Series 1993-A and B. The Official Statement relating to the Authority's 2003 Bonds is available from the Authority or by accessing the Authority's website.

On March 20, 2003, the Authority renewed its commercial paper program in an aggregate amount not to exceed $100 million, and entered into a three-year Letter of Credit and Reimbursement Agreement with WestLB AG, New York Branch, to provide security for the commercial paper program.

Airline Bankruptcies. Three airlines operating at the Airport, Air Canada, US Airways and United Air Lines, which together accounted for 25% of enplanements at the Airport in fiscal year 2002, have filed for bankruptcy protection. On March 31, 2003, US Airways and its affiliates emerged from bankruptcy protection. Upon emergence from bankruptcy protection, US Airways and its affiliates assumed all leases and executory contracts relating to their operations at Logan Airport. Neither United nor Air Canada has rejected its executory leases at Logan Airport, and each has continued to make its rental payments with respect to rent due after the date such carrier filed for bankruptcy protection. The Authority actively monitors past due balances to minimize any potential losses due to such proceedings, aggressively pursues overdue amounts and bankruptcy claims, and includes an allowance for uncollectible debts in its landing fee and terminal rental revenues.

Logan Airport Enplanements and Operations Activity for FY 2003 & 2002

	2003	2002
Enplanements		
Domestic	9,343,669	9,121,999
International	1,906,562	1,904,246
General Aviation	47,072	46,302
Total Enplanements	11,297,303	11,072,547
Aircraft Operations (take-offs and landings)	381,425	409,000
Landed Weights (1,000 pounds)	19,576,341	19,871,952

Financial Highlights

The financial results for fiscal year 2003 showed clear improvement over the prior year. Operating income of $25.4 million was $8.4 million or 49% greater than the operating income of fiscal year 2002. As of June 30, 2003, net assets were $1,133.8 million, an increase of $60.2 million or 5.6%. These results were achieved even in a time of reduced activity levels, particularly in operations at Logan Airport. The Authority carefully managed the revenues and costs within its control, in part by raising and restructuring parking rates. While three carriers operating at the Airport declared bankruptcy, the Authority's use of security deposits and leases with strong gate control language enabled the Authority to improve its accounts receivable in spite of these bankruptcies. Moreover, when US Airways emerged from bankruptcy protection in March 2003, it assumed each of its leases and other agreements at Logan Airport. Logan Airport's revenues and passenger counts were not significantly impacted by the war in Iraq or by the travel declines related to SARS. In addition, revenues were enhanced by restructuring the short-term parking fees, and increasing the parking fee at Terminal B from $22 to $24 per day in January 2003. The difficult winter, with a record snowfall on President's Day, and the Authority's commitment to leadership in airport security also added to the pressure on expenses. Nonetheless, the expense controls introduced in the financial recovery plan for fiscal year 2002 were continued in the budget for fiscal year 2003, freeing up cash for these important commitments (see *Budget Highlights* below).

The final results for fiscal year 2003 were slightly better than forecasted in the budget. Revenues, calculated in accordance with the 1978 Trust Agreement (see Note B to the Financial Statements), were $373.7 million, approximately $5.2 million greater than projected in the fiscal year 2003 budget, and actual operating expenses were $223.8 million, nearly $1.3 million under the fiscal year 2003 expense

budget. Operating expenses were contained by continuing the prior year's reduction in staff of approximately 15% through an early retirement program and layoffs; a reduction in certain services contracts, including building cleaning and bus frequencies; but were also affected by significant increases in costs related to operation of new facilities and for security services, principally the cost of additional public safety personnel and related overtime. The fiscal year 2003 budget held the amount deposited to the Maintenance Reserve Fund at 1% of the replacement cost of the Authority's facilities and the Payment in Lieu of Taxes Fund was fully funded.

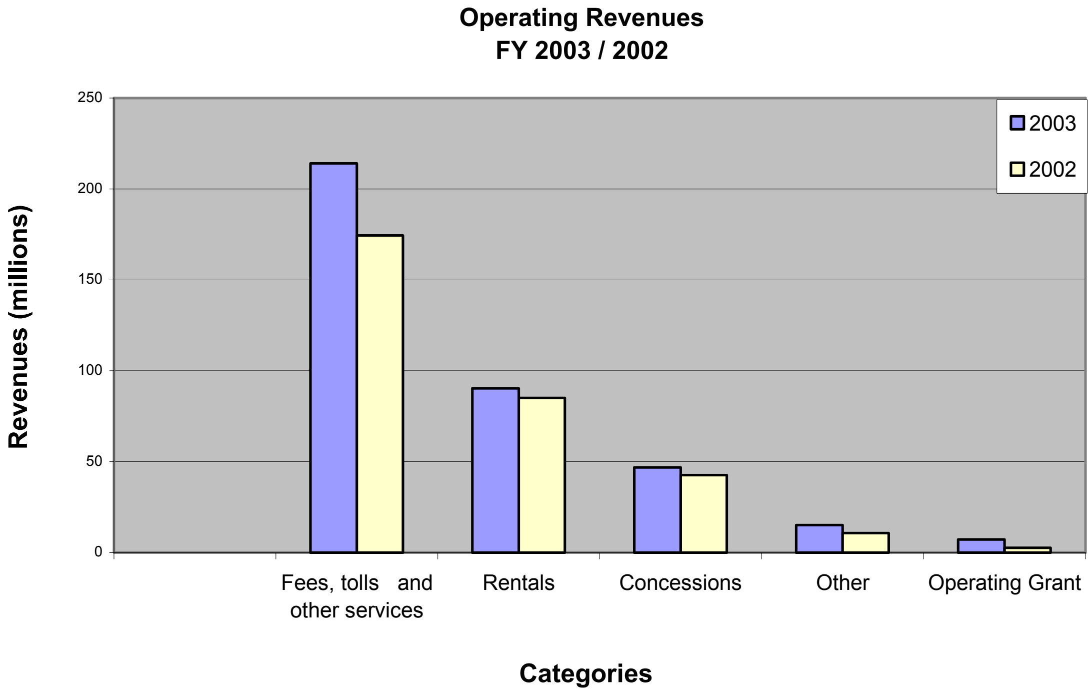
A summary of revenues and expenses, calculated according to Generally Accepted Accounting Principles ("GAAP"), for fiscal year 2003, as compared to 2002, is set forth below. Please note that federal grants were received during fiscal year 2003 for a portion of the additional operational costs associated with additional security services. Unlike grants in aid of capital projects, which are treated as an increase in net assets, this payment is reflected as operating revenue.

The fiscal year 2003 operating revenue for the Authority was $373.8 million, an increase of $55.9 million when compared to the prior fiscal year. This largely resulted from a $19.3 million increase in landing fee revenue, from a parking rate increase, from an increase in reimbursements for construction details and from the receipt of operating grants that were related to security.

Operating Revenues (in millions)	**2003***	**2002***	**Increase from 2002***	**Percent of Increase from 2002**
Fees, tolls and other services	$ 214.1	$ 174.5	$ 39.6	23%
Rentals	90.4	85.1	5.3	6%
Concessions	46.8	42.7	4.1	10%
Other**	15.1	12.8	2.3	18%
Operating grant	7.3	2.7	4.5	167%
Total	$ 373.8*	$ 317.9*	$ 55.9*	18%

* Column totals might not add due to rounding.
** Public safety detail revenue and expense has been reclassified in the FY02 financial statements.

The following is a graphic illustration of operating revenues according to GAAP by source for the year ended June 30, 2003:



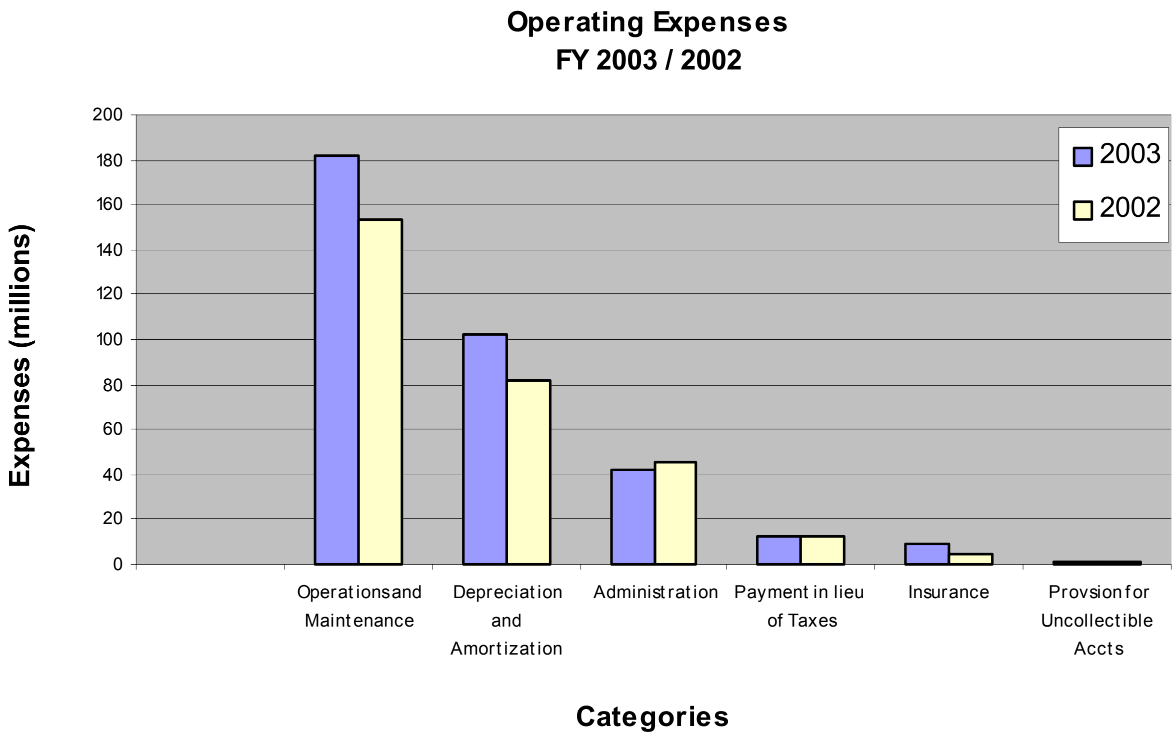
The fiscal year 2003 operating expenses for the Authority were $348.4 million, an increase of $47.5 million when compared to the prior fiscal year. Expense growth was driven by increased security expenses, the snow removal and utility costs associated with a severe winter, a doubling of insurance costs and the increased depreciation associated with completing several major capital projects.

Total Operating Expenses (in millions)	2003	2002	Increase (Decrease) from 2002	Percent of Increase (Decrease) from 2002
Operations and maintenance**	$ 181.8	$ 155.5	$ 26.3	17%
Administration	41.8	46.0	(4.2)	(9%)
Insurance	8.7	4.3	4.4	102%
Payments in lieu of taxes	12.6	12.2	.4	3%
Provision for uncollectible accounts	1.2	1.3	(.1)	(8%)
Depreciation and amortization	102.4	81.6	20.8	25%
Total	$ 348.4*	$ 300.9	$ 47.5	16%

* Column totals might not add due to rounding.

** Public safety detail revenue and expense has been reclassified in the FY02 financial statements.

The following is a graphic illustration of the total operating expenses according to GAAP by type for the year ended June 30, 2003:



Changes in Net Assets

The change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or worsened during the year. The changes in net assets for the years ended June 30, 2003 and 2002 were increases of $60.2 million and $41.1 million, respectively. Operating income for fiscal year 2003 of $25.4 million was $8.4 million or 49% greater than fiscal year 2002. Non-operating revenues include PFCs and investment income. PFC revenues in fiscal year 2003 of $29.1 million were slightly lower than PFC revenues of $29.4 million in fiscal year 2002. Interest income declined as interest rates fell and large capital expenditures drew down the balances available for investment. Non-operating expenses of $49.8 million increased by $9.1 million from 2002 primarily due to an increase in interest expense associated with an end to the capitalized interest on certain projects. The combined changes in net non-operating revenues and expenses were a negative $9.2 million in contrast to a positive $8.6 million in fiscal year 2002. Capital grant revenue for fiscal year 2003 was $44.0 million, significantly greater than fiscal year 2002's capital grant revenue of $15.5 million.

The following is a summary of the Statement of Revenues, Expenses and Changes in Net Assets:

	(in millions) 2003	2002
Operating Revenue	$ 373.8	$ 317.9
Operating Expense	(348.4)	(300.9)
Operating Income	25.4	17.0
Non-Operating Revenue	40.6	49.3
Non-Operating Expense	(49.8)	(40.6)
Non-Operating Revenue (expenses)	(9.2)	8.6
Capital Grant Revenue	44.0	15.5
Change in Net Assets	$ 60.2	$ 41.1

Balance Sheets

The Balance Sheets present the financial position of the Authority at the end of the fiscal year. The statement includes all assets and liabilities of the Authority. Net assets are the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets at June 30, 2003 and 2002 is as follows:

	(in millions) 2003*	2002*
Assets		
Current assets	$ 108.0	$ 118.3
Non-current assets		
Capital assets, net	2,102.8	1,779.1
Other non-current assets	568.8	553.3
Total Assets	$ 2,779.5	$ 2,450.8
Liabilities		
Current liabilities	$ 117.9	$ 117.5
Non-current liabilities		
Funded debt outstanding	1,470.7	1,213.2
Other non-current liabilities	57.1	46.5
Total Liabilities	$ 1,645.7	$ 1,377.1
Net Assets		
Invested in capital assets, net of debt	$ 701.4	$ 615.0
Restricted	378.3	402.9
Unrestricted	54.1	55.7
Total Net Assets	$ 1,133.8	$ 1,073.6
Total Liabilities and Net Assets	$ 2,779.5	$ 2,450.8

*Column totals might not add due to rounding.

The Authority ended the fiscal year with assets of $2.78 billion, and with liabilities of $1.65 billion and net assets of $1.13 billion.

The Authority has investments in facilities of $2.1 billion, including both fully completed facilities and construction-in-progress, an increase of $323.7 million from 2002. The Authority's capital assets are principally funded by the proceeds of revenue bonds, Authority revenues, and capital contributions from federal grants and PFCs. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are determined using current values. Major projects substantially completed in fiscal 2003 were the terminal retrofits to accommodate in-line baggage screening, the walkway from the Central Garage to Terminal C, the new two-level outbound roadway and the South Addition to the International Gateway.

In fiscal year 2003 the Authority increased the amount of commercial paper outstanding from $31 million to $42 million. Long-term debt outstanding increased by $257.5 million due to the issuance of the 2003 Bonds and commercial paper. Other liabilities increased by $14.8 million, principally related to accrued expenses and retainage for capital projects, offset by a decrease in accrued interest payable.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $1,133.8 million at June 30, 2003, an increase of $60.2 million from 2002. Those net assets invested in capital assets, net of related debt, increased by $86.4 million to $701.4 million. The Authority's restricted assets of $378.3 million as of June 30, 2003, are subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement. The remaining unrestricted assets of $54.1 million are deposited in the Improvement and Extension Fund and may be used for any lawful purpose of the Authority, and have been fully committed to support the Authority's capital program.

Budget Highlights

The Authority is required to prepare its budget according to the 1978 Trust Agreement rather than according to GAAP. The annual budget includes the projected operating expenses, as well as projected revenue of the Authority, and also sets forth the deposits to the funds established under the 1978 Trust Agreement necessary to meet the covenants set forth therein. The 1978 Trust Agreement also provides that the Authority may at any time adopt an amended or supplemental budget for the remainder of the then current fiscal year.

On June 20, 2002, the Authority adopted a budget for fiscal year 2003 that projected revenues of $368.5 million and approved an operating expense limit of $225.1 million. The fiscal year 2003 operating budget sustained the large reduction in personnel and other costs that was achieved in the fiscal recovery plan adopted and implemented by the Authority in response to September 11th. At the same time, it provided for significant new security costs and large increases in the cost of the Authority's insurance program.

FY2003 Budget vs. Actual Results
(Per 1978 Trust Agreement)
(in millions)

	FY2003 Budget	FY2003 Results	FY 2002 Results*
Operating Revenues	$368.5	373.7	329.6
Operating Expenses	$225.1	223.8	203.5

* Public safety detail revenue and expense has been reclassified in the FY02 financial statements.

Logan Airport is the principal source of the Authority's operating revenues, operating income and net revenue. Landing fees, terminal rentals and charges for heating and cooling are set annually by a resolution of the Members of the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historic capital costs and projected landed weights, and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses. In addition, as discussed above, the Authority retains the ability to adjust parking rates, Bridge tolls and other fees and charges for use of its facilities.

The Authority's historical practice has been to budget for an average winter (i.e., an average number of inches of snow). The winter of 2002-2003 was characterized by a higher than average number of incidents of snow and/or ice as well as one blizzard during which a record snowfall accumulation occurred on a holiday weekend. Therefore, the costs of snow removal significantly exceeded budgeted amounts, though overall the Authority's operating expenses were within budget.

In fiscal year 2003, the Authority offered an Early Retirement Program in order to facilitate the realignment of the Authority's organization. This program had little impact upon expenses in 2003 but is expected to lower costs in 2004.

Cash and Investment Management

The Authority's cash and cash equivalents increased to $209.5 million for the year ended June 30, 2003 from $92.0 million for the year ended June 30, 2002. Cash and cash equivalents are considered highly liquid investments with an original maturity of thirty (30) days or less.

The following summary shows the major sources and uses of cash:

	(in millions) 2003	2002
Net cash provided by operating activities	$ 135.2	$ 101.0
Net cash used for capital and related financing activities	(154.0)	(212.2)
Net cash provided by investing activities	136.3	123.0
Net increase in cash and cash equivalents	117.5	11.8
Cash and cash equivalents, beginning of year	92.0	80.2
Cash and cash equivalents, end of year	$ 209.5	$ 92.0

Cash received during the year or required for the needs of the Authority was invested in demand deposits, the Massachusetts Municipal Depository Trust (MMDT), U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, certificates of deposit, and other permitted investments under the 1978 Trust Agreement or the PFC Trust Agreement. During fiscal 2003, the Authority's average portfolio balance of funds held under the 1978 Trust Agreement was $472.4 million and the average yield on investments was 1.97%. During fiscal 2003, the Authority's average portfolio balance of funds held under the PFC Trust Agreement, other than bond funds held for construction, was $102.5 million and the average yield on investments was 2.11%.

Certain funds held as debt service reserves as required by PFC Trust Agreement are invested in long-term instruments. An annual cash flow projection for capital projects is developed for all bond proceeds as well as for the Maintenance Reserve and Improvement & Extension funds and the PFC Capital Fund, and investments are matched to maximize investment income while ensuring cash is available for capital project expenses.

All investments must be made pursuant to the investment policy adopted in 2000 by the Members of the Authority. The majority of the Authority's funds, including investments, are held by the Trustees under the 1978 Trust Agreement or the PFC Trust Agreement, respectively, or custodians for such Trustees, and are invested at the direction of the Authority. An investment committee meets monthly to review projected cash flow needs and investments, and an investment oversight committee meets quarterly to review the Authority's existing portfolios for compliance with the investment policy and comparability with external benchmarks, and to revise the existing investment strategies for the Authority's various funds, if necessary.

The Authority's Capital Program

In response to the financial downturn following September 11th, the Authority initiated a careful review of all of its current and planned capital projects and, as a result, the Authority reduced the capital program for fiscal years 2002 and 2003 by 37%. In January 2003 the Authority adopted a $1.74 billion, five-year capital program that projects the use of $1.25 billion of Authority funds and $490 million of non-recourse third party financing. This program includes a number of new security initiatives, the most ambitious of which is the $146 million in terminal retrofits required to house the Transportation Security Administration's ("TSA") new baggage screening equipment and personnel.

During fiscal year 2003, the Authority expended $413.3 million in its on-going capital program. Major projects substantially completed in fiscal 2003 were the terminal retrofits to accommodate the TSA's explosive detection systems, the moving walkways from the Central Garage to Terminal C, Logan Airport's new two-level outbound roadway and the South Addition to the International Gateway at Terminal E. Major on-going projects that are scheduled for completion in fiscal year 2004 or beyond at the Airport include the reconstruction of Terminal A, the International Gateway, the enhanced security program, residential soundproofing in nearby communities and certain Terminal Area Roadway improvements.

Capital Financing and Debt Management

As of June 30, 2003, outstanding obligations of the Authority issued pursuant to the 1978 Trust Agreement and the PFC Trust Agreement totaled approximately $1.5 billion reflecting issuance of the 2003 Bonds and refunding of the 1992 and 1993 Bonds (special facilities revenue bonds issued on behalf

of and payable by certain borrowers are excluded). In fiscal year 2003, the total amount deposited to pay debt service on obligations issued pursuant to the 1978 Trust Agreement not including subordinate obligations was an aggregate of principal and interest of $76.7 million, while the total amount deposited to pay debt service on bonds issued pursuant to the PFC Trust Agreement was an aggregate of principal and interest of $21.5 million.

Credit Ratings:
During fiscal year 2002, as a result of the financial impact of the events of September 11th on the aviation industry in general and the Authority in particular, the ratings on the Authority's bonds were reviewed by each rating agency currently maintaining a rating on the Authority's bonds. In February 2002, Moody's Investors Service ("Moody's") confirmed its Aa3 ratings on the Authority's revenue bonds, and the underlying A2 ratings on the Authority's PFC Revenue Bonds, both with a negative outlook. On March 1, 2002, Standard & Poor's ("S&P") reduced its rating on the Authority's revenue bonds to A+ from AA- and its underlying rating on the PFC Revenue Bonds to A-, each with a stable outlook. Finally, on May 7, 2002, Fitch lowered its rating on the Authority's revenue bonds to AA- from AA with a stable outlook, and affirmed its A underlying rating on the PFC Revenue Bonds. When the Authority issued the 2003 Bonds in May 2003, these ratings were confirmed by each of the rating agencies. The Authority's PFC Revenue Bonds are insured by Financial Security Assurance Inc. and are rated AAA, Aaa and AAA, as insured, by each of Fitch, Moody's, and S&P, respectively. The Authority's Commercial Paper Notes are rated A-1+ and P-1 by S&P and Moody's, respectively, based on credit enhancement provided by WestLB AG.

Authority Obligations:
The following is a summary of outstanding obligations issued by the Authority as of June 30, 2003:

Revenue Bonds

- The Authority had 13 series of Revenue Bonds (including Revenue Refunding Bonds) outstanding pursuant to the 1978 Trust Agreement in a total principal amount of $1,144 million.
- While 12 of these series are fixed rate debt, the 2003-B Bonds are auction rate securities. This $80,025,000 series is subject to the Alternate Minimum Tax, is insured by MBIA, and Citigroup and Lehman Brothers serve as Broker Dealers for the auctions that are held every 35 days. (MBIA also insures the fixed rate 2003-A and 2003-C Bonds.)
- The Authority had six series of Subordinated Revenue Bonds, in the aggregate principal amount of $74 million, outstanding pursuant to the 1978 Trust Agreement.

Commercial Paper

- The total amount of Commercial Paper Notes outstanding pursuant to the 1978 Trust Agreement was $42 million as of June 30, 2003.
- The total amount of Commercial Paper Notes authorized was up to $100 million.
- The Authority's Commercial Paper Notes are secured by a letter of credit issued by West LB AG in a principal amount of $100 million.

PFC Revenue Bonds

- The Authority has issued two series of PFC Revenue Bonds pursuant to the PFC Trust Agreement, with $231.3 million outstanding as of June 30, 2003.

Special Facilities Revenue Bonds

- As of June 30, 2003, the Authority had approximately $809.5 million of special facilities revenue bonds outstanding, in nine separate series of bonds.

- As a result of the bankruptcy of United Air Lines, Inc., the trustee for the Authority's Special Facilities Revenue Bonds (United Air Lines, Inc., Project), Series 1999A has declared an event of default with respect to such bonds.
- The principal of and interest on each series of the special facilities revenue bonds issued by the Authority are special obligations of the Authority, payable solely from the sources of payment and to the extent provided in the resolutions establishing and authorizing the issuance of such bonds. The special facilities revenue bonds are not and shall never be general obligations of the Authority or of the Commonwealth or of any political subdivision thereof.

Other Obligations

- From time to time the Authority has guaranteed or provided other credit support for debt obligations issued by or on behalf of its tenants. (See Note J to the financial statements.)
- The Authority entered into an interest rate swap agreement, effective July 1, 2002, with Citigroup Financial Products ("Citigroup"), which is guaranteed by Citigroup Global Market Holding, Inc., in the notional amount of $100 million pursuant to which the Authority will receive 4.05% and pay Citigroup the Bond Market Association index on the notional amount for the period from July 1, 2002 through June 30, 2012. The Authority is treating this transaction as a synthetic variable rate refunding of $56 million of its Revenue Bonds, Series 1999-D and $44 million of its Revenue Bonds, Series 1998-E. In fiscal year 2003, Massport received three quarterly payments from the swap counterparty totaling $2,069,884. $1,159,135 was applied to the debt service for the 1999-D Bonds and $910,749 was applied to the debt service for the 1998-E Bonds. (See Note H to the financial statements.)

The Authority is financing its construction program through a combination of the Authority's revenues, entitlement and discretionary grants received from the FAA, PFCs, commercial paper and revenue bonds. Long-term debt is the principal source of funding for the Authority's capital program. The Authority, through the 1978 Trust Agreement, has covenanted to maintain a debt service coverage ratio of not less than 1.25. Debt service coverage is calculated based on a formula set forth in the 1978 Trust Agreement. Historically, the Authority has maintained a coverage ratio significantly higher than its requirement. As of June 30, 2003 and 2002, respectively, the Authority's debt service coverage under the 1978 Trust Agreement was 2.02 and 1.81. As of June 30, 2003 and 2002, the Authority's PFC debt service coverage under the PFC Trust Agreement was 1.69 and 2.27, respectively.

Contacting the Authority's Financial Management

For additional information concerning the Authority, please see the Authority's award winning website, www.massport.com. Financial information can be found in the Investor Relations section of the website by clicking on "About Massport", and then clicking on "Who We Are". The Authority's executive offices are located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128, and the main telephone number is (617) 426-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Massachusetts Port Authority
Balance Sheets
June 30, 2003 and 2002
(In Thousands)

ASSETS	2003	2002
CURRENT ASSETS		
Cash and cash equivalents	$ 42,021	$ 41,812
Investments	31,748	47,028
Accounts receivable – net of allowance for doubtful accounts of $12,321 and $10,774 as of June 30, 2003 and 2002, respectively	23,401	20,341
Accounts receivable-grants	6,728	4,177
Prepaid expenses and other assets	4,087	4,951
Total current assets	107,985	118,309
NONCURRENT ASSETS		
Assets whose use is limited		
Cash and cash equivalents	167,472	50,159
Investments	331,073	438,346
Prepaid expenses and other assets	22,671	15,718
Investment in joint venture	4,362	4,426
Intangible assets, net	43,177	44,719
Capital Assets		
Completed facilities	2,935,561	2,243,161
Less accumulated depreciation	(1,067,634)	(967,637)
	1,867,927	1,275,524
Construction in progress	234,849	503,549
Capital assets, net	2,102,776	1,779,073
Total noncurrent assets	2,671,531	2,332,441
TOTAL ASSETS	$ 2,779,516	$ 2,450,750

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Balance Sheets, Continued
June 30, 2003 and 2002
(In Thousands)

LIABILITIES AND NET ASSETS	2003	2002
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 46,898	$ 37,236
Compensated absences	2,020	782
Retainage	3,471	6,776
Current maturities of funded debt	32,745	36,495
Accrued interest payable	28,824	33,242
Deferred income	3,973	2,935
Total current liabilities	117,931	117,466
NON-CURRENT LIABILITIES		
Accrued expenses	16,719	12,082
Compensated absences	13,366	14,852
Retainage	17,819	9,793
Funded debt	1,470,690	1,213,184
Deferred income	9,151	9,751
Total noncurrent liabilities	1,527,745	1,259,662
Total liabilities	1,645,676	1,377,128
NET ASSETS		
Invested in capital assets, net of related debt	701,423	615,048
Restricted	378,268	402,888
Unrestricted	54,149	55,686
Total net assets	1,133,840	1,073,622
TOTAL LIABILITIES AND NET ASSETS	$ 2,779,516	$ 2,450,750

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30, 2003 and 2002
(In Thousands)

	2003	2002
Operating revenues:		
Fees, tolls and other services	$ 214,116	$ 174,508
Rentals	90,431	85,053
Concessions	46,829	42,741
Other	15,117	12,837
Operating grant	7,314	2,749
Total operating revenues	373,807	317,888
Operating expenses:		
Operations and maintenance	181,765	155,510
Administration	41,814	45,981
Insurance	8,685	4,332
Payments in lieu of taxes	12,559	12,209
Provision for uncollectible accounts	1,211	1,260
Depreciation and amortization	102,388	81,596
Total operating expenses	348,422	300,888
Operating income	25,385	17,000
Nonoperating revenues (expenses):		
Passenger facility charges	29,090	29,445
Investment income	11,486	19,795
Gain on sale of equipment	31	17
Interest expense	(45,806)	(40,642)
Other expense / Arbitrage	(3,962)	-
Total nonoperating revenues (expenses)	(9,161)	8,615
Income before capital grant revenue	16,224	25,615
Capital grant revenue	43,994	15,450
Increase in net assets	60,218	41,065
Net assets, beginning of year	1,073,622	1,032,557
Net assets, end of year	$1,133,840	$ 1,073,622

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002
(In Thousands)

	2003	2002
Cash flows from operating activities:		
Cash received from customers and operating grants	$ 370,002	$ 312,844
Cash payments:		
To vendors for goods and services	(132,019)	(111,408)
To employees for services	(90,218)	(91,751)
Payments in lieu of taxes	(12,559)	(8,729)
Net cash provided by operating activities	135,206	100,956
Cash flows from capital and related financing activities:		
Capital Grant Reimbursements	41,443	17,571
Acquisition and construction of capital assets	(413,325)	(165,567)
Proceeds from commercial paper financing	41,000	6,000
Proceeds from sale of equipment	49	67
Proceeds from sale of bonds	411,175	-
Principal Paid on refunded debt	(129,220)	-
Principal paid on funded debt (other than commercial paper)	(36,495)	(32,450)
Principal paid on commercial paper	(30,000)	-
Interest paid on funded debt	(67,929)	(67,506)
Proceeds from passenger facility charges	29,311	29,681
Net cash used for capital and related financing activities	(153,991)	(212,204)
Cash flows from investing activities:		
Purchases of investments	(2,050,554)	(1,587,362)
Proceeds from sales and maturities of investments	2,172,607	1,682,164
Interest earned on investments	14,254	28,220
Net cash provided by investing activities	136,307	123,022
Net increase in cash and cash equivalents	117,522	11,774
Cash and cash equivalents, beginning of year	91,971	80,197
Cash and cash equivalents, end of year	$ 209,493	$ 91,971

(Continued on next page)

The accompanying notes are an integral part of these financial statements.

Massachusetts Port Authority
Statements of Cash Flows, Continued
For the Years Ended June 30, 2003 and 2002
(In Thousands)

	2003	2002
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 25,385	$ 17,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	102,388	81,596
Provision for uncollectible accounts	1,211	1,260
Changes in assets and liabilities:		
Accounts receivable	(3,702)	(2,130)
Prepayments and other assets	(879)	(4,169)
Accounts payable and accrued expenses	10,613	7,977
Accrued compensated absences	(249)	(111)
Deferred income	439	(467)
Total adjustments	109,821	83,956
Net cash provided by operating activities	$ 135,206	$ 100,956

The accompanying notes are an integral part of these financial statements.

The Massachusetts Port Authority (the "Authority") is a body politic and corporate and a public instrumentality of The Commonwealth of Massachusetts (the "Commonwealth") created by Chapter 465 of the Acts of 1956, as amended, (the "Enabling Act"), effective June 21, 1956. The Authority controls, operates and manages Boston Logan International Airport ("Logan Airport"), Laurence G. Hanscom Field, Maurice J. Tobin Memorial Bridge ("Bridge"), the Port of Boston and other facilities in the Port of Boston. The Authority has no stockholders or equity holders and the Authority's financial statements are not a component of the Commonwealth's financial statements. The provisions of the Enabling Act and the Trust Agreement, dated as of August 1, 1978 as amended (the "1978 Trust Agreement"), between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as Trustee, and the PFC Revenue Bond Trust Agreement dated May 6, 1999, as amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as Trustee, govern the disposition of cash revenues to the various funds established under the 1978 Trust Agreement and the PFC Trust Agreement, and restrict the use and investment of such revenues credited to the various funds.

A. Summary of Significant Accounting Policies

These financial statements have been prepared on the accrual basis of accounting and the economic resources measurement focus in accordance with accounting principles generally accepted in the United States of America.

During 2002, the Authority adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

  Nonexpendable – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended June 30, 2003 and 2002, the Authority did not have nonexpendable net assets.

  Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire by the passage of time. Such assets included the Authority's bond construction funds on hand.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Members of the Authority or may otherwise be limited by contractual agreements with outside parties.

A. Summary of Significant Accounting Policies, continued

Commencing on July 1, 1995, the Authority elected to apply all GASB and Financial Accounting Standards Board ("FASB") pronouncements issued before November 30, 1989, under the provisions of GASB Statement No. 20. Accordingly, FASB Statements issued after FASB No. 104 are not incorporated in the Authority's financial statements.

Assets Whose Use is Limited
The balance sheets caption, "Assets Whose Use is Limited," represent restricted or trusteed assets under the 1978 Trust Agreement and the PFC Trust Agreement that are earmarked to fund certain activities of the Authority such as construction of new facilities, debt service and debt service reserves.

Cash and Cash Equivalents
The Authority considers all highly liquid investments (including assets whose use is limited) with an original maturity of 30 days or less when purchased to be cash equivalents.

Investments
Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost. Investments consist of U.S. Government and agency obligations, repurchase agreements collateralized by U.S. Government or agency obligations, shares in the Massachusetts Municipal Depository Trust ("MMDT") and other investments permitted under the 1978 Trust Agreement or the PFC Trust Agreement.

Self-Insurance
The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. The funds on deposit in the Self-Insurance Account are intended to pay claims that are below insurance policies' deductible limits, and to be available to fund certain claims that may not be insurable on reasonable terms, if any. Investments used to fund self-insurance claims are included within "Assets whose use is limited" in the accompanying balance sheets.

Capital Assets
Facilities are carried at historical cost and include the expenditure of capital grants, the cost of significant renewals and betterments and related legal costs. Capital grants are recorded as capital grant revenue. Expenditures for repairs and operating maintenance are charged to expense as incurred.

Depreciation
Depreciation is calculated on the straight-line method based on the estimated useful lives of the applicable assets beginning in the fiscal year of acquisition or upon completion of construction. Depreciation is computed on facilities, which are recorded in the accounts of the Authority, including those financed by grants.

A. Summary of Significant Accounting Policies, continued

Interest Capitalization

The Authority capitalizes certain interest associated with the cost of restricted tax-exempt borrowings, less any interest earned on temporary investment of the proceeds of those borrowings during the period of construction. Interest expense of \$17,705,000 and \$26,069,000 reduced by interest income of \$2,270,000 and \$6,303,000, resulted in interest of \$15,435,000 and \$19,766,000 for the years ended June 30, 2003 and 2002, respectively, being capitalized as a part of the cost of construction in progress.

Accounting for Compensated Absences

The Authority accrues for vacation and sick pay when it is earned. The liability for vested vacation and sick pay is reflected in the accompanying balance sheets under the captions "compensated absences."

Deferred Income

Deferred income consists primarily of amounts received from the Massachusetts Highway Department ("MHD") as compensation for temporary and permanent easements in certain properties at Logan Airport which provide MHD with sufficient rights in land owned by the Authority to permit MHD to complete the Ted Williams Tunnel project, as currently designed. Income received from these easements will be recognized over the shorter of the asset's useful life or the original term for temporary easements, and over the estimated useful life of the assets constructed under permanent easements, which is 25 years.

Arbitrage - Rebate Liability

The U.S. Treasury has issued regulations on calculating the rebate due to the U.S. Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Internal Revenue Code of 1986, as amended. Arbitrage profits arise when the Authority temporarily invests the proceeds of tax-exempt debt in securities with higher yields than the yield on such debt. The Authority records a liability for arbitrage profits, if any, when the likelihood of payment becomes probable. For the year ended June 30, 2003, the Authority recorded an arbitrage rebate liability of \$2.7 million for arbitrage earned that is likely to be rebated to the U.S. government related to the 1999 PFC Bond Series-A&B. In addition, a \$952,000 arbitrage rebate was expensed and has already been paid.

Passenger Facility Charges

Revenues derived from the collection of passenger facility charges ("PFCs") are recognized on the accrual basis and reported as nonoperating revenue by the Authority.

Net Assets

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consists of three components: Invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of debt include capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt net of applicable debt service reserves. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Authority's restricted assets are expendable. All other net assets are unrestricted.

A. Summary of Significant Accounting Policies, continued

Intangible Assets

Intangible assets consist of the rights to use certain parking spaces acquired by the Authority as part of the ParkEx Acquisition. During fiscal 2001, the Authority purchased the ownership interest of two partnerships that owned and operated a park and fly business ("ParkEx") located near the Airport and held the contractual rights to park 1,377 automobiles in East Boston (the "Park Ex Parking Spaces"). The total amount allocated to the ParkEx Parking Spaces is approximately $46 million and is presented as Intangible Assets, net of amortization, in the accompanying financial statements. These intangible assets are amortized on a straight-line basis over 30 years.

Joint Venture

The Authority has a 33% participating interest in a joint venture (known as the Anderson Regional Transportation Center). In accordance with the joint venture agreement, the Authority records as income or loss its proportionate share of the net earnings or losses of the joint venture with a corresponding increase or decrease in the carrying value of the investment. The investment in the joint venture is reduced as cash distributions are received and is increased as cash contributions are made. (See Note N.)

Financial Statement Reclassification

Certain accounts in the June 30, 2002 financial statements have been reclassified to conform with the June 30, 2003 presentation.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements

The provisions of the Enabling Act, the 1978 Trust Agreement and the PFC Trust Agreement prescribe certain accounting practices to be followed in maintaining the accounts and records of the Authority.

Under the 1978 Trust Agreement, cash revenues of the Authority are deposited daily into the Revenue Fund established pursuant to the 1978 Trust Agreement. Once each month, all such revenues are transferred to the Operating Fund established pursuant to the 1978 Trust Agreement. After providing for operating expenses, including pension expense and transfers to the Self-Insurance Account, cash revenues are then transferred to the Interest and Sinking Fund, which are applied to debt service on any outstanding revenue bonds, the Maintenance Reserve Fund, the Payment In Lieu of Taxes Fund and, if applicable, the Capital Budget Fund and finally the Improvement and Extension Fund.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement and the PFC Trust Agreement to the Financial Statements, continued

Cash and investments held in the Improvement and Extension Fund, to the extent designated by the Authority, are deposited in the Capital Budget Account within such fund. PFCs are deposited in the PFC Pledged Revenue Fund established pursuant to the PFC Trust Agreement and applied monthly to pay debt service on PFC Revenue Bonds as required in the PFC Trust Agreement. Any remaining funds are transferred to the PFC Capital Fund. In order to comply with federal tax requirements, the Authority also establishes a separate rebate account for each series of its bonds. As of June 30, 2003, the only rebate accounts that had been funded were the Series 1999-A and 1999-B PFC Rebate Accounts.

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

Presented below are the 2003 and summary 2002 revenues and operating expenses as determined in accordance with the 1978 Trust Agreement, and a reconciliation to net assets as presented in the accompanying statements of revenues, expenses and changes in net assets under accounting principles generally accepted in the United States of America ("GAAP").

		Airport	Port Properties			2003	2002
(In thousands)	**Bridge**	**Properties**	**Maritime**	**Development**	**Investments**	**Total**	**Total**
Revenues, net:							
Pledged revenues (5)	$ 22,321	$ 299,998	$ 34,930	$ 8,032	$ 7,962	$ 373,243	$ 326,838
Operating Grant	25	261	126	23	-	435	2,749
Total	22,346	300,259	35,056	8,055	7,962	373,678	329,587
Operating expenses:							
Operations and maintenance	5,444	130,257	32,701	4,561	-	172,963	154,059
Administration (6)	2,407	31,722	5,962	1,723	-	41,814	45,981
Insurance	860	6,442	1,404	336	-	9,042	3,427
Total	8,711	168,421	40,067	6,620	-	223,819	203,467
Excess (deficit) of revenues over operating expenses as prescribed by the 1978 Trust Agreement	13,635	131,838	(5,011)	1,435	7,962	149,859	126,120
Add:							
Self Insurance Interest Income (3)	-	-	-	-	1,365	1,365	2,791
Passenger Facility Charge (PFC) (3)	-	29,090	-	-	771	29,861	32,097
Earnings associated with PFC bond funds (3)	-	-	-	-	1,388	1,388	1,393
Capital grant revenue (3)	-	43,994	-	-	-	43,994	15,450
Gain on sale of equipment (2) (4)	-	31	-	-	-	31	17
Less:							
PILOT (4)	(972)	(10,155)	(1,022)	(410)	-	(12,559)	(12,209)
Self Insurance Cost (1)	(79)	1,214	(694)	(83)	-	357	(905)
Interest Expense (4)	(1,359)	(39,728)	(3,552)	(1,167)	-	(45,806)	(40,642)
Depreciation and Amortization (2) (4)	(4,803)	(83,360)	(8,686)	(5,539)	-	(102,388)	(81,596)
Operating Other Expenses (4)	-	(1,923)	-	-	-	(1,923)	(1,451)
Nonoperating Other Expenses (4)	-	(3,962)	-	-	-	(3,962)	-
Increase in net assets	$ 6,422	$ 67,039	$ (18,965)	$ (5,764)	$ 11,486	$ 60,218	$ 41,065

B. Reconciliation of Revenues and Operating Expenses as Determined by Accounting Practices Prescribed by the 1978 Trust Agreement to the Financial Statement, continued

(1) Expensed under 1978 Trust Agreement, not an expense under GAAP.
(2) Equipment is depreciated under GAAP but not under 1978 Trust Agreement.
(3) Not revenue under 1978 Trust Agreement, revenue under GAAP.
(4) Not operating income/(expense) under 1978 Trust Agreement, income/(expense) under GAAP.
(5) For trust accounting purposes, the provision for uncollectible accounts is netted within the accounts listed under the Pledged Revenues caption.
(6) The Authority allocates total administrative expenses based upon the proportionate amount of revenues and direct expenses by facility.

C. Cash, Cash Equivalents and Investments

The following summarizes the Authority's cash, cash equivalents and investments at June 30, 2003 by the various funds and accounts established under the 1978 Trust Agreement and the PFC Trust Agreement. Summary 2002 information is also presented:

	Current		Non-current		
(In thousands)	Cash and cash equivalents	Investments	Assets whose use is limited: Cash, cash equivalents and investments	2003 Total	2002 Total
User defined for specific purposes:					
Operating/revenue fund	$ 37,254	$ -	$ -	$ 37,254	$ 28,983
Self-insurance account	-	-	34,302	34,302	32,681
Maintenance reserve	-	-	38,950	38,950	30,611
Payments in lieu of taxes	-	-	5,854	5,854	4,820
Capital budget account	-	-	65,940	65,940	113,735
Improvement and Extension Fund	4,767	31,748	-	36,515	59,857
1992-A&B Debt Service	-	-	-	-	3,265
1992-A&B Debt Service Reserve	-	-	-	-	4,327
1993 Debt Service	-	-	-	-	6,151
1993 Debt Service Reserve	-	-	-	-	8,465
1997-A Debt Service	-	-	7,224	7,224	6,618
1997-A Debt Service Reserve	-	-	10,851	10,851	10,868
1997-B Debt Service	-	-	1,936	1,936	1,904
1997-B Debt Service Reserve	-	-	2,994	2,994	2,959
1998-A Debt Service	-	-	2,883	2,883	2,875
1998-A Debt Service Reserve	-	-	9,658	9,658	9,688
1998-B Debt Service	-	-	2,551	2,551	2,571
1998-B Debt Service Reserve	-	-	4,345	4,345	4,353
1998-C Debt Service	-	-	14,146	14,146	13,684
1998-C Debt Service Reserve	-	-	12,449	12,449	12,565
1998-D Debt Service	-	-	2,955	2,955	2,909
1998-D Debt Service Reserve	-	-	4,536	4,536	4,522
1998-E Debt Service	-	-	3,734	3,734	3,676
1998-E Debt Service Reserve	-	-	5,744	5,744	5,755
1999-C Debt Service	-	-	5,362	5,362	5,290
1999-C Project Account	-	-			3
1999-C Debt Service Reserve	-	-	14,178	14,178	14,185
1999-D Debt Service	-	-	3,356	3,356	3,314
1999-D Project Account	-	-	2	2	16,714
2003-A Debt Service Reserve	-	-	14,032	14,032	-
2003-A Project	-	-	56,633	56,633	-
2003-B Debt Service	-	-	156	156	-
2003-B Project	-	-	41,856	41,856	-
2003-B Debt Service Reserve	-	-	5,571	5,571	-
2003-C Debt Service Reserve	-	-	9,218	9,218	-
2003-C Debt Service	-	-	7	7	-
1997 Note Project Account	-	-	3	3	3
1997 Note Repayment	-	-	3,000	3,000	-
1996 Commercial Paper Project Account	-	-	-	-	663
2003-B CP Project Account	-	-	17,624	17,624	-
2003-A CP Project Account	-	-	19,006	19,006	-
Park Ex Principal 2000-A	-	-	7,554	7,554	7,110
Park Ex Interest 2000-A	-	-	1,291	1,291	1,292
Park Ex Principal 2001-A	-	-	6,423	6,423	6,046
Park Ex Interest 2001-A	-	-	1,097	1,097	1,098
PFC Pledged Revenue	-	-	2,692	2,692	2,602
PFC Capital	-	-	11,671	11,671	30,943

C. Cash, Cash Equivalents and Investments, continued

PFC Collection	-	-	484	484	15
1999-A&B PFC Funded Interest	-	-	4,761	4,761	3,539
1999-A&B Non-PFC Fund Interest	-	-	1,309	1,309	2,725
1999-A PFC Funded Debt Service Reserve	-	-	25,578	25,578	25,574
1999-A PFC Project	-	-	-	-	85
1999-B PFC Project	-	-	3,581	3,581	68,849
1999-B PFC Principal	-	-	9,638	9,638	8,778
1999-B Non PFC Principal	-	-	214	214	670
1999-A Rebate – PFC	-	-	398	398	1
1999-B Rebate - PFC	-	-	798	798	4
Total	$ 42,021	$ 31,748	$ 498,545	$572,314	$ 577,345

The carrying amount of the Authority's cash deposits was $6,677,000 and $5,071,000 at June 30, 2003 and 2002, respectively. The bank balance was $14,630,000 and $5,769,000 at June 30, 2003 and 2002, respectively. The nature of the reconciling items between the book and bank balance consisted primarily of outstanding checks which had not cleared the bank at year-end. The bank balance was fully collateralized as of June 30, 2003 and 2002.

The following summarizes the Authority's cash and cash equivalents and investments by type held at June 30, 2003. Summary 2002 information is also presented.

(In thousands)	Carrying Amount	Fair Value as of June 30, 2003
Forward delivery agreements	$ 69,059	$ 69,059
Guaranteed Investment Contracts	13,977	13,977
U.S. Government Agencies and Instrumentalities:		
Treasury Note / Bill	2,019	2,045
Federal Farm Credit (FFC)	14,774	14,887
Federal National Mortgage Association (FNMA)	80,508	81,198
Federal Home Loan Bank (FHLB)	119,548	120,710
Federal Home Loan Mortgage Corp. (FHLMC)	45,381	45,611
Total U.S. Government Agencies and Instrumentalities	262,230	264,451
Mutual fund (MMDT) and others	215,349	215,349
Total investments	560,615	562,836
Cash deposit	6,677	6,677
Certificates of deposit	5,022	5,022
Total at June 30, 2003	$ 572,314	$ 574,535
Total at June 30, 2002	$ 577,345	$ 580,950

C. Cash, Cash Equivalents and Investments, continued

The Authority is authorized by the 1978 Trust Agreement and the PFC Trust Agreement to invest in obligations of the U.S. Treasury, U.S. Government agencies and instrumentalities, in bonds or notes of public agencies or municipalities, in the MMDT, in bank time deposits and in forward delivery agreements and certain other types of permitted investments specified therein. All investments are held on behalf of the Authority by the Trustees or custodians for the Authority or the Trustees in the Authority's name.

The repurchase agreements are collateralized by obligations of the U.S. Government or agencies of the U.S. Government. The 1978 Trust Agreement and the PFC Trust Agreement require that securities underlying repurchase agreements at the time of purchase must have a fair value at least equal to the cost of the agreement plus accrued interest. MMDT is a governmental investment pool with a diversified portfolio of money market instruments.

The forward delivery agreements are each in the form of a guaranteed investment contract which provides for, among other things, the sequential delivery of securities to be sold to the applicable Trustee periodically at a discount from maturity value such that the aggregate discount equals the interest rate previously agreed between the Authority and the provider of the guaranteed investment contract.

The Authority's investments are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk.

Category 1: Includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name. Category 2: Includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the name of the Authority. Category 3: Includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the name of the Authority. Investments in the Massachusetts Municipal Depository Trust (MMDT) are not categorized. MMDT is a trust that is managed for the Treasurer's Office of The Commonwealth of Massachusetts and municipalities within Massachusetts to maintain a stable $1.00 unit price.

The table below presents the Authority's investment risk classifications in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* (GASB 3).

C. Cash, Cash Equivalents and Investments, continued

June 30, 2003
(In thousands)

	Category 1	Category 2	Category 3	Carrying amount	Fair value
Investments:					
U.S. Government agencies and instrumentalities	$ 262,230			$ 262,230	$ 264,451
Sub Total	262,230			262,230	264,451
Investments not categorized:					
Forward delivery agreements				69,059	69,059
Guarantee Investment Contracts				13,977	13,977
Mutual Fund and other (MMDT)				215,349	215,349
Sub Total				298,385	298,385
Total at June 30, 2003				$ 560,615	$ 562,836

June 30, 2002
(In thousands)

	Category 1	Category 2	Category 3	Carrying amount	Fair value
Investments:					
Repurchase agreements	$ 68,544			$ 68,544	$ 68,544
U.S. Government agencies and instrumentalities	317,483			317,483	321,088
Sub Total	386,027			386,027	389,632
Investments not categorized:					
Forward delivery agreements				84,124	84,124
Guarantee Investment Contracts				13,156	13,156
Mutual Fund and other (MMDT)				83,935	83,935
Sub Total				181,215	181,215
Total at June 30, 2002				$ 567,242	$ 570,847

The Authority's cash deposits are categorized below to give an indication of the level of risk with Category 1 being the lowest level of risk to Category 3 being the highest level of risk.

In accordance with GASB Statement No. 3, the Authority classifies its deposits as to the credit risk by the following three categories: Category 1 includes insured or collateralized cash with securities held by the Authority or its agent in the Authority's name; Category 2 includes collateralized cash with securities held by the pledging financial institutions' trust department or agent in the Authority's name; and Category 3 includes uncollateralized cash, including any bank balance that is collaterized with securities held by the pledging institution, or by its trust

C. Cash, Cash Equivalents and Investments, continued

department or agent, but not in the Authority's name. The table below presents the Authority's deposit risk classifications in accordance with GASB Statement No. 3:

June 30, 2003
(In thousands)

	Category 1	Category 2	Category 3	Carrying amount	Fair value
Cash Deposits:					
Cash on Hand		$	$ 6,677	$ 6,677	$ 6,677
Certificates of Deposit		5,022		5,022	5,022
Sub Total		5,022	6,677	11,699	11,699
Total at June 30, 2003				$ 11,699	$ 11,699

June 30, 2002
(In thousands)

	Category 1	Category 2	Category 3	Carrying amount	Fair value
Cash Deposits:					
Cash on Hand		$	$ 5,071	$ 5,071	$ 5,071
Certificates of Deposit		5,032		5,032	5,032
Sub Total		5,032	5,071	10,103	10,103
Total at June 30, 2002				$ 10,103	$ 10,103

D. Capital Assets

Net capital assets at June 30, 2003 and 2002 are comprised of:

(In thousands)	2003	2002
Facilities completed by operation:		
Airport	$ 2,369,355	$ 1,687,404
Bridge	140,057	137,133
Port	426,149	418,624
Capital assets	$ 2,935,561	$ 2,243,161

A summary of changes in investments in facilities and in construction in progress for the year ending June 30, 2003 is as follows:

(In thousands)	Beginning balance July 1, 2002	Additions and Transfers	Deletions and Transfers	Ending balance June 30, 2003
Construction in progress	$ 503,549	$ 398,651	$ (667,351)	$ 234,849
Land & land improvements	139,170	2,988	-	142,158
Bridge and bridge improvements	126,813	3,312	-	130,125
Buildings	1,333,593	452,012		1,785,605
Runway & other paving	533,464	231,242		764,706
Machinery & Equipment	110,121	3,371	(525)	112,967
	2,243,161	692,925	(525)	2,935,561
Less: accumulated depreciation	(967,637)	(100,270)	273	(1,067,634)
Capital Assets, net	$ 1,779,073	$ 991,306	$ (667,603)	$ 2,102,776

D. Capital Assets, continued

Estimated useful lives used in the calculation of depreciation are as follows:

Bridge	100 years
Bridge improvements	10 to 25 years
Buildings	25 years
Runways and other paving	25 years
Machinery and equipment	5 to 10 years

E. Passenger Facility Charge

In 1993, the Authority received initial approval from the Federal Aviation Administration ("FAA") to impose a $3.00 passenger facility charge ("PFC") at Logan Airport. PFCs collected by the Authority can be used for capital projects determined by the FAA to be eligible in accordance with the Aviation Safety and Capacity Expansion Act of 1990. In February 1998, the Authority received approval from the FAA to increase its collections up to $927.4 million with a projected expiration date of October 1, 2017. Through June 30, 2003 the Authority had collected $336.7 million in PFCs. The Authority also received approval from the FAA to use or expend a total of $927.4 million for preliminary design projects as well as for the final design, construction and financing costs associated with the eligible portions of residential soundproofing, Terminal E Modernization, circulating roadways, the elevated walkways, and the International Gateway Project.

On May 6, 1999, the Authority entered into the PFC Trust Agreement with The Bank of New York, as trustee, simultaneously removing PFC revenues from the pledge of the 1978 Trust Agreement. All PFCs collected by the Authority are currently pledged under the PFC Trust Agreement. On June 16, 1999, the Authority issued $249,355,000 PFC Revenue Bonds, Series 1999-A and 1999-B pursuant to the PFC Trust Agreement of which $231,290,000 was outstanding as of June 30, 2003.

The amount of assets derived from PFC revenue and the proceeds of bonds issued pursuant to the PFC Trust Agreement invested in Authority facilities, operations and reserves that are restricted for future PFC project expenses is as follows:

(In thousands)	**June 30, 2003**	**June 30, 2002**
Total assets, PFCs	$ 558,424	$ 558,798
PFC funds and PFC Bond funds expended, net	(492,953)	(410,254)
Other PFC related assets	(4,349)	(4,761)
PFCs collected to date and PFC Bond proceeds restricted but not yet expended	$ 61,122	$ 143,783

F. Net Assets

The provisions of GASB Statements No. 33 and No. 34 have been applied to the years ending June 30, 2003 and 2002. The table below is a reconciliation of total net assets per the Authority's internal financial statements for the years ending June 30, 2003 and 2002 to the net asset classifications for the years ending June 30, 2003 and 2002.

(in thousands) Net assets	**2003**	**2002**
Net assets, beginning of year	$1,073,622	$1,032,557
Income before capital grant revenue	16,224	25,615
Capital grant revenue	43,994	15,450
Net assets, end of year	$1,133,840	$1,073,622
Invested in capital assets, net of related debt	701,423	615,048
Restricted	378,268	402,888
Unrestricted	54,149	55,686
Total net assets	$1,133,840	$1,073,622

G. Funded Debt

The following is a summary of the Authority's funded debt activity for the years ended June 30, 2003 and 2002:

(In thousands)	**2003**	**2002**
Funded debt, beginning of year	$1,258,145	$1,284,595
New debt issued (par) (other than commercial paper)	388,195	-
New commercial paper issued	41,000	6,000
Principal paid on refunded debt	(129,220)	-
Principal paid on funded debt (other than commercial paper)	(36,495)	(32,450)
Principal paid on commercial paper	(30,000)	-
Funded debt, end of year	$1,491,625	$1,258,145

G. Funded Debt, continued

Funded debt at June 30, 2003 and 2002 is comprised of the following:

(in thousands)	Weighted average interest rate at June 30, 2003	2003	2002
Revenue Refunding Bonds:			
Series 1993 – A & B	-	-	37,260
Series 1997 – C	4.86%	14,185	14,350
Series 1998 – A, B & C	5.77%	211,920	224,015
Series 2003 – B*	1.30%	30,850	-
Series 2003 – C	4.52%	86,360	-
Revenue Bonds:			
Series 1992 – A & B	-	-	12,860
Series 1997 – A	5.27%	58,610	61,160
Series 1997 – B	5.10%	18,105	18,910
Series 1998 – D	4.64%	19,745	21,015
Series 1998 – E	4.75%	22,785	24,360
Series 1999 – C	5.52%	52,515	54,440
Series 1999 – D	5.54%	32,315	33,490
Series 2003 – A	4.36%	129,340	-
Series 2003 – B*	1.30%	49,175	-
Term Revenue Bonds	5.24%	418,430	410,790
Subordinated Revenue Bonds			
Series 2000 – A, B & C	6.45%	40,000	40,000
Series 2001 – A, B & C	6.45%	34,000	34,000
PFC Revenue Bonds:			
Series 1999 – A	5.13%	67,665	67,665
Series 1999 – B	5.19%	163,625	172,830
Commercial paper			
Series 1996	-	-	31,000
Series 2003 – A*	1.23%	22,000	-
Series 2003 – B*	1.11%	20,000	-
Total funded debt		1,491,625	1,258,145
Plus: net issue premium		22,958	-
Less: unamortized loss on refunding		(11,148)	(3,493)
Less: net issue discount		-	(4,973)
Total		$ 1,503,435	$ 1,249,679
Less: current maturities of funded debt		(32,745)	(36,495)
Non current maturities of funded debt		$ 1,470,690	$ 1,213,184

*Variable rate debt.

G. Funded Debt, continued

Scheduled principal payments on funded debt are due annually on July 1 as follows:

Fiscal Year (in thousands)

2004	$ 32,745
2005	43,180
2006	45,635
2007	50,075
2008	56,800
Thereafter	1,263,190
Total	$1,491,625

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium (in thousands):

Due Fiscal Year	Principal	Interest*	Total Debt Service
2004	$ 32,745	$ 57,908	$ 90,653
2005	43,180	72,381	115,561
2006	45,635	69,172	114,807
2007	50,075	64,033	114,108
2008	56,800	64,609	121,409
2009 – 2013	300,705	280,821	581,526
2014 – 2018	292,905	204,576	497,481
2019 – 2023	150,715	134,479	285,194
2024 – 2028	165,905	85,550	251,455
Thereafter	352,960	33,379	386,339
	$ 1,491,625	$ 1,066,908	$ 2,558,533

*The interest on the 2003 auction rate securities including fees is projected at 1.21% which was the debt service (interest and fees) as of the auction held on June 24, 2003.

On May 29, 2003, the Authority issued $388,195,000 of its Revenue and Revenue Refunding Bonds, Series 2003-A, B and C (the "2003 Bonds") with an original issue premium of $22,980,000. The 2003-A Bonds and the 2003-B Bonds were issued, in part, to finance a portion of the FY03-FY07 Capital Program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A and the 2003-C Bonds were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's

G. Funded Debt, continued

Revenue Refunding Bonds, Series 1993-A and B. The 2003-A and 2003-C Bonds are fixed rate Revenue Bonds. The 2003-B Bonds are auction rate securities.

On December 29, 2000 and January 2, 2001, as a component of the ParkEx Acquisition (see Note A: Intangible Assets), the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74 million, bearing interest at 6.45% per annum (collectively, the "Subordinated Bonds"). The Subordinated Bonds are payable solely from funds on deposit in the Improvement and Extension Fund and in a separate account not subject to the pledge of the 1978 Trust Agreement or the PFC Trust Agreement (the "Subordinated Bonds Principal Account").

The Subordinated Bonds are subordinate to all of the Authority's outstanding Revenue Bonds. The Authority has invested $12 million on deposit in the Subordinated Bonds Principal Account in two investment contracts which, at their stated maturities, will provide for the $74 million principal of the Subordinated Bonds at their respective maturities.

On March 20, 2003, the Authority renewed its commercial paper program in an aggregate principal amount not to exceed $100 million, and entered into a three year Letter of Credit Agreement with WestLB AG, acting through its New York Branch, to support the commercial paper program. The sum of the non-AMT (Alternative Minimum Tax) program (called the 2003-A Series) and the AMT program (called the 2003-B Series) will not exceed the lesser of 10% of the outstanding principal on the Authority's outstanding debt or $100 million. As of June 30, 2003, $22 million of the 2003-A series and $20 million of the 2003-B Series were outstanding. As of June 30, 2002, $31 million in commercial paper backed by a Line of Credit with WestLB AG was outstanding.

In prior years, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust with the Trustee for such bonds to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Authority's financial statements. At June 30, 2003, the balances outstanding for the following bonds which are considered defeased include:

	(in thousands)
1964 Series	$ 5,950
1969 Series	26,825
1971 Series	46,700
1973 Series	58,080
1982 Series	41,515
1992 Series	45,140
1993 Series	84,080
Total defeased bonds	$ 308,290

The Series 1992 and the Series 1993 Bonds were redeemed and paid in full on July 1, 2003.

G. Funded Debt, continued

To provide for the construction and improvement of various facilities at Logan Airport, including a hotel and conference center, a fuel storage and distribution system, terminal redevelopment, extension and improvement and maintenance facilities, the Authority has issued and has outstanding nine series of special facilities revenue bonds. The Authority's special facilities revenue bonds are all special limited obligations of the Authority and are payable solely from and secured solely by certain revenues to be received by a separate trustee, pursuant to agreements between the Authority and the tenants of the facilities constructed with the proceeds of such bonds and, in certain cases, guaranty agreements from the lessee/obligor. As a result of United Air Lines, Inc. filing for bankruptcy protection in December 2002, the trustee for the Authority's $80,500,000 Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999-A (the "United Bonds") has issued notice that the United Bonds are in default.

The Authority's special facilities revenue bonds do not constitute a debt or pledge of the faith and credit of the Authority or the Commonwealth and, accordingly, have not been reflected in the accompanying financial statements.

At June 30, 2003, the aggregate principal amount of the Authority's special facilities revenue bonds outstanding was approximately $809.5 million.

H. Interest Rate Swap

On July 1, 2002, the Authority entered into a pay-variable, receive-fixed interest rate swap with term of ten years to refund synthetically $56 million of the Authority's Revenue Bonds Series 1999-D and $44 million of its Revenue Bonds 1998-E. The objective of the swap is to lower the interest rates paid on the Series 1999-D and Series 1998-E Bonds. The notional value of the swap is $100 million. Under the terms of the swap, the Authority pays a variable rate equivalent to The Bond Market Association Municipal Swap Index (BMA), which was 0.98 percent at June 30, 2003, and receives fixed-rate payments at 4.05 percent. As of June 30, 2003, the swap created synthetic variable-rate bonds as follows:

	Terms	Rates	Rates
Interest rate swap:			
Variable payment to counterparty	BMA	0.98%	0.98%
Fixed payment from counterparty	Fixed	(4.05%)	(4.05%)
Net Interest rate swap payments		(3.07%)	(3.07%)
Fixed-rate bond coupon payments 1998-E	Fixed	4.98%	
Fixed-rate bond coupon payments 1999-D	Fixed		5.79%
Synthetic variable interest on the bonds		1.91%	2.72%

H. Interest Rate Swap, continued

Fair value. As of June 30, 2003, the swap had a positive fair value of $8,568,067. The fair value of the swap was calculated using the par-value method: the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the established market value of the fixed component from the established market value of the variable component (the par value of the bond).

Credit risk. The swap's fair value represented the Authority's credit exposure to the counterparty as of June 30, 2003. Should the counterparty to this transaction fail to perform according to the terms of the swap contract, the Authority faced a maximum possible loss equivalent to the swap's $8,568,067 fair value. As of June 30, 2003, the swap counterparty, Citigroup Financial Products with a guarantee from Citigroup Global Markets Holdings Inc. was rated Aa1 by Moody's Investors Service and AA- by Standard & Poor's Ratings. To mitigate credit risk, if the counterparty's credit quality falls below A3/A-, the swap will be assigned to a third party reasonably acceptable to the Authority or the swap will be terminated.

Interest rate risk. The swap increases the Authority's exposure to interest rate risk. As BMA increases, the Authority's net payment on the swap increases.

Termination risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Citigroup may terminate the swap a) if the Authority's senior general obligation revenue debt is rated less than A3 as determined by Moody's or A- by Standard & Poor's, b) if as of the last day of any calendar month, the available moneys on deposit in the Improvement and Extension Fund are less than $20 million or if c) the deposit in the Swap Account of the Improvement and Extension Fund thirty days prior to any payment date is less that $500,000. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for that payment.

In fiscal year 2003, Massport received three quarterly payments from the swap counterparty totaling $2,069,884. $1,159,135 was applied to the debt service for the 1999-D Bonds and $910,749 was applied to the debt service for the 1998-E Bonds.

Interest expenses were reduced by the net amounts received under the interest rate swap agreement of $2,069,884 for fiscal year 2003.

I. Pension Costs

In July 1978, the Massachusetts legislature passed legislation which was enacted as Chapter 487 of the Massachusetts Acts of 1978 ("C.487") and signed into law on July 18, 1978. This act provided for the establishment of the "Massachusetts Port Authority Employees' Retirement System," (the "Plan"), a contributory retirement system that is separate from the Massachusetts State Employees' Retirement System. Prior to this enactment, Authority employees were members of the state employees' system, and the funding of the pension liability was on a "pay as you go" method. Pursuant to C.487, the employees' rights and benefits under the state plan were transferred to the new system, and the Authority established a separate pension fund. The Plan

I. Pension Costs, continued

was established to provide retirement benefits for substantially all employees of the Authority and incidental benefits for their surviving spouses, beneficiaries and contingent annuitants. The Plan is a contributory single employer defined benefit plan to which the Authority and its employees contribute such amounts as are necessary, on an actuarial basis, to provide assets sufficient to meet benefits to be paid to plan participants. The Plan issues a stand-alone financial report which can be obtained by writing to:

Massachusetts Port Authority Employees' Retirement System
One Harborside Drive, Suite 200S
East Boston, MA 02128-2909

At January 1, 2003, the Plan's membership consisted of:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:	434
Current members:	
Active	1,107
Inactive	114
Total	1,655

Benefits are paid by the Plan from net assets available for Plan benefits. Plan participants are entitled, at normal retirement date, to benefit payments based upon length of service and earnings levels. Vesting occurs after ten years of service. Optional payment methods may be elected, including the contingent annuitant method which provides for reduced payments during the life of the Plan participant and continued payments to the participant's beneficiary after the death of the participant.

The Authority's covered payroll for members of the Plan as of the most recent actuarial valuation date was approximately $64.9 million as of January 1, 2003. Total payroll for Authority employees was approximately $79.2 million for the 12 months ended June 30, 2003.

The actuarial cost method utilized to determine contributions for the years ended December 31, 2002 and 2001 is the Frozen Entry Age Actuarial Cost Method Plan.

The more significant actuarial assumptions underlying the actuarial computations for the Plan years ended December 31, 2002 and 2001 are as follows:

Assumed rate of return on investments	-	8.0% per annum compounded annually
Nondisabled life mortality basis	-	The RP-2000 Mortality Table
Withdrawal prior to retirement	-	The rates shown at the following sample ages illustrates the withdrawal assumption

I. Pension Costs, continued

Rate of Withdrawal

Age	**Group 1 and 2**	**Group 4**
25	9.0%	1.8%
30	5.6	1.7
35	3.2	1.3
40	2.3	0.5
45	1.8	0.04
50	1.5	N/A
55	N/A	N/A

Salary escalation - 5.5% per annum

Rate of Inflation - 3.0% per annum

Rates of retirement - Group 1 and 2 employees are assumed to retire at the following rates upon attainment of 10 years of service:

Rate of Retirement

Age	Groups 1 and 2*
55	9%
56	3
57	5
58	2
59	6
60	6
61	8
62	11
63	14
64	13
65	100

*Groups 1 and 2 are assigned based on employee class.

- Group 4 employees are assumed to retire upon the attainment of age 58 and 10 years of service

Retirement benefits - Depending on age at retirement and "Group" classification, 0.1%-2.5% per year of service times highest three-year average salary.

Post retirement cost of living increases - 3% per annum compounded annually on the first $12,000 of pension benefits.

I. Pension Costs, continued

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due and fund operating costs of the Plan. The Plan also amortizes the unfunded actuarial accrued liabilities in level amounts at 8% over a period of 20 years on a closed basis. The actuarial value of assets is determined using fair values (adjusted by payables and receivables) adjusted to phase in investment gains or losses above or below the expected rate of investment return. A four-year rolling period is used.

Total contributions to the Plan were $5,754,522 for the plan year ended December 31, 2002. This includes employee contributions of $5,754,522, which are based upon a percentage of employee base pay (5% for employees hired before January 1, 1975, 7% for employees hired between January 1, 1975 and January 1, 1984, 8% for employees hired after January 1, 1984 and 9% for employees hired after July 1, 1996 and, effective January 1, 1998, an additional 2% of base pay over $30,000 for those employees hired after December 31, 1978). The Authority did not make contributions to the Plan in fiscal year 2003. Authority contributions are determined in accordance with an actuarial valuation performed for the Plan's fiscal year beginning January 1, 2003.

As presented in the following table, the Frozen Entry Age Actuarial Method for calculating the schedule of funding progress is the methodology required by the Plan under its charter.

(In Thousands)

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c
Actuarial valuation date	**Actuarial value of assets**	**Actuarial accrued liability ("AAL")**	**Unfunded actuarial accrued liability ("UAAL")**	**Funded ratio**	**Covered payroll**	**UAAL as a percent of covered payroll**
1/1/02	$293,120	$294,457	$1,337	99.5%	$63,604	2.1%
1/1/01	285,609	285,209	(400)	100.1%	65,403	(0.6)%
1/1/00	260,162	262,606	2,444	99.1%	61,250	4.0%
1/1/99	230,807	234,184	3,377	98.6%	56,888	5.9%
1/1/98	202,761	208,176	5,415	97.4%	54,393	10.0%
1/1/97	175,804	179,455	3,651	98.0%	50,563	7.2%

Analysis of the dollar amounts of actuarial value of assets, AAL and UAAL, in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the AAL provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the Public Employee Retirement System (PERS). Trends in assets in excess of AAL and annual covered payroll are both affected by inflation. Expressing the assets in excess of AAL as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due.

I. Pension Costs, continued

Schedule of Employer Contributions
(In thousands)

Calendar Year ended December 31	Annual required employer contributions (ARC)	Employer contributions as a percent of ARC
2002	-	0%
2001	-	0%
2000	-	0%

The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation
Plan investments are reported at fair value. Securities traded on a national or international securities exchange are valued at the last reported sales price on the last business day of the plan year; investments traded on a national securities exchange for which no sale was reported on that date and investments in common and preferred stocks traded in over-the-counter markets are valued at the mean of the last reported bid and asked prices, or the last reported bid price. Mutual funds and commingled funds, including real estate, are valued based on net asset value at year-end. Limited partnerships are valued using the valuations reported by the general partner.

Certain operating expenses incurred by the Plan are funded by the Authority through additional employer contributions. Investment management fees, consulting fees and custodial fees for the Plan are reflected as deductions to investment income.

J. Contingent Liabilities and Commitments

Contractual Obligations for Construction
Contractual obligations for construction were approximately $302,138,000 at June 30, 2003.

Guarantee and Intercreditor Agreement
During fiscal 2002, the Authority entered into a Guarantee and Intercreditor Agreement (the "Intercreditor Agreement") with The Bank of New York (the "Bank") in connection with an unrelated limited liability company's bonds. The bonds were issued in fiscal 2000 to provide financing to the limited liability company (the "Company"), which is a tenant of the Authority, to fund construction of a multi-tenant seafood processing and distribution center (the "Facility") located at the North Jetty in the Marine Industrial Park in Boston, Massachusetts on which the Authority has a long-term lease from the City of Boston. The Facility was substantially completed and fully leased at June 30, 2002. The Intercreditor Agreement represents a guarantee by the Authority to pay the Bank up to $10 million in the event the Company does not meet its obligations to pay the guaranteed obligations, as defined. The Authority and the Company have also entered into an Amended and Restated Reimbursement Agreement (the "Reimbursement Agreement") pursuant to which the Authority has agreed to advance for the benefit of the Company up to $10,000,000 to the Bank under the Intercreditor Agreement in the event the Company fails to repay drawings on the letter of credit issued by the Bank to support the bonds

J. Contingent Liabilities and Commitments, continued

and up to $900,000 to others for certain additional costs, and the Company has agreed to repay such advances over a term of up to 15 years, with interest on the unpaid balance at 5% per annum. Such obligations of the Authority are payable solely from available moneys, as defined, in the Improvement and Extension Fund established under the 1978 Trust Agreement and cash collateral, if any, provided to the Bank under the Intercreditor Agreement.

As of June 30, 2003, the Authority had advanced on behalf of the Company, $539,410 of the $900,000 authorized, and received repayments of $222,560, which included principal and interest on the loan. In the opinion of the Authority's management, no advance pursuant to the Intercreditor Agreement is anticipated during the next twelve months and, except for the remaining $360,590 authorized to be advanced on behalf of the Company, no further advances pursuant to the Reimbursement Agreement are anticipated during the next twelve months.

Third Harbor Tunnel

The Massachusetts Highway Department ("MHD") is undertaking a depression of a portion of I-93 in downtown Boston ("Central Artery") and the extension of the eastern terminus of I-90 to the Airport by construction of a new tunnel under Boston Harbor (the "Ted Williams Tunnel"), (collectively, the "CA/T Project").

In March 1999, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Roadway Transfer Agreement that provides for the acquisition by the Authority of certain identified segments of the CA/T Project located at Logan Airport following completion of construction of such segments, in exchange for installment payments by the Authority to the Commonwealth totaling an aggregate of $300 million. On January 29, 2001, the Authority, MHD and the Massachusetts Turnpike Authority entered into a Second Supplement to the Roadway Transfer Agreement which provides for the transfer to the Authority of an additional portion of the Ted Williams Tunnel located within and exclusively serving Logan Airport valued at $65 million, in exchange for a payment to the Commonwealth by the Authority of $65 million, thereby increasing the aggregate commitment to $365 million. Payments totaling $265 million have been made through June 30, 2003. Subject to the transfer to the Authority of assets of equivalent value, the remaining payments are due pending the transfer of certain roadway assets in the following amounts in each of the following fiscal years: $50 million and $50 million, in fiscal years 2004, and 2005, respectively.

The Authority and MHD entered into a Settlement Agreement dated as of January 15, 1998 (the "CA/T Settlement Agreement") which is intended to resolve all past and certain future land acquisition claims relating to the portions of the Authority's property at the Airport and in South Boston necessary to complete the Ted Williams Tunnel project.

Pursuant to the CA/T Settlement Agreement, MHD has made payments to the Authority and certain of its tenants and agreed to provide certain betterments to the Authority. As of June 30, 2003, the Authority has received payments from MHD totaling approximately $41.5 million. In return, the Authority has released MHD from all land damage lawsuits and claims relating to the Ted Williams Tunnel project asserted by the Authority against MHD, to assist MHD with relocation of certain Airport tenants, to work diligently to cause certain tenants of the Authority to dismiss pending land damage actions against MHD, and to provide MHD with sufficient rights in

J. Contingent Liabilities and Commitments, continued

land owned by the Authority at the Airport to permit MHD to complete the Ted Williams Tunnel project, as currently designed.

Seaport Bond Bill
The Seaport Bond Bill was enacted on February 14, 1996 and provides authorization for funding by the Commonwealth of $15 million toward the nonfederal share of the cost of completing the Boston Harbor Navigation Improvement Project. The Seaport Bond Bill requires the Authority to pay twenty-five percent (25%) for the nonfederally funded costs of the Project. The Authority has already paid or committed approximately $5 million for the nonfederal share of the Project. Private berth owners have paid for the dredging of their individual berths. A second provision of the Seaport Bond Bill would provide a mechanism for funding improvements to the Massachusetts rail transportation network allowing rail shipment of double stack cargo from Allston yards in Boston to points west, which is anticipated to encourage expanded container shipments through the Port of Boston. The Seaport Bond Bill requires that the Authority provide up to fifty percent (50%) of the cost of improvements to the rail line from Framingham to the Allston yard in Boston permitting double stack shipments, at an estimated cost to the Authority of approximately $38 million. Expenditure of funds will not occur until the execution of a Master Agreement, as defined by the statute, between the Commonwealth and the participating railroads.

Worcester Airport
On April 15, 1999, the Authority entered into a Memorandum of Understanding ("M.O.U.") among the City of Worcester, Massachusetts and the Worcester Airport Commission (the "City Parties"). The M.O.U. contemplates the takeover of the Worcester Regional Airport by the Authority in two separate phases. In compliance with Phase One, on January 15, 2000, the Authority assumed operating responsibility for Worcester Regional Airport pursuant to a separate Operating Agreement. Phase Two, anticipated by the M.O.U. to take place within five years of the date of execution of the Operating Agreement, may involve the transfer of title of Worcester Regional Airport from the City Parties to the Authority. However, legislation would be required to effectuate such transfer. The Authority's goal is to develop a more effective and efficient regional airport network by increasing utilization of Worcester Regional Airport in conjunction with ongoing operation of its other airport facilities.

The terms of the Operating Agreement provide for the allocation of the net operating deficits for Worcester Regional Airport as between the Authority and the City of Worcester, with the Authority assuming 75% of those net operating deficits during fiscal year 2002 and 100% during fiscal years 2003 and 2004. For the years ending June 30, 2003 and 2002, the Authority paid $1,923,000 and $1,451,000, respectively for the net operating deficits of Worcester Regional Airport, plus certain of the Authority’s direct expenses associated with operation of the Worcester Regional Airport.

K. Payments in Lieu of Taxes

The Enabling Act authorizes and directs the Authority, subject to certain standards and limitations, to enter into agreements (collectively, the "PILOT Agreements") to make annual payments in lieu of taxes to Boston, Chelsea, and Winthrop. In fiscal 1992, the Authority's obligation to Chelsea for annual in-lieu-of-tax payments through 2012 was satisfied by a payment of $5,000,000. In response to increased traffic on the Bridge and the increased impact of the Airport on Chelsea since 1992, however, the Authority and Chelsea amended their PILOT

K. Payments in Lieu of Taxes, continued

Agreement in fiscal 1999 to provide for annual payments by the Authority to the City of Chelsea of $500,000 for each of the fiscal years 1999 through 2003, inclusive.

In fiscal 1994, the Authority entered into an extension of an amendment to its agreement with Winthrop (the "Winthrop PILOT Agreement") which extended the base in-lieu-of-tax payments through fiscal 1999 and added further components to such payments, including a parks/related facilities portion of $150,000, payable through fiscal 2011, which is adjusted annually based upon the percentage increase in the number of annual air passengers at Logan Airport. While the base in-lieu-of tax payments were extended only through fiscal 1999, the Authority continued to make such payments in fiscal 2003 under the Winthrop PILOT Agreement. In August 1997, the Authority and Winthrop entered into a further amendment of the Winthrop PILOT Agreement which added further components to such in lieu of taxes payments, including an Additional Environmental Portion consisting of an annual payment of $150,000 payable each September 1 from 2001 through fiscal 2005. The Additional Environmental Portion is not subject to the escalation provisions of the Winthrop PILOT Agreement.

In fiscal 1995, the Authority entered into a comprehensive Amended and Restated Payment-in-Lieu-of-Taxes Agreement with the City of Boston, (the "Boston PILOT Agreement"), with a term commencing on March 14, 1995 and ending June 30, 2005. Pursuant to the Boston PILOT Agreement, the Authority will pay to the City the sum of $10,000,000 annually, which payment will be increased by the annual percentage change in the consumer price index, provided that such increase shall be no less than 3%, nor greater than 7%, per year, less an established credit, per the Boston PILOT Agreement. In August 1997, the Authority and certain community groups entered into agreements which provide for additional payments under the Boston PILOT Agreement, for a minimum of $4.8 million and up to $9.6 million, with payments to be made as milestones associated with modernization of Logan Airport were reached. These additional payments are not subject to annual adjustment.

The Authority's Enabling Act, the 1978 Trust Agreement and the PILOT Agreements provide that annual payments under the PILOT Agreements may not exceed the balance of revenues remaining after deposits to the payment of operating expenses, required deposits to the Interest and Sinking Fund and required deposits to the Maintenance Reserve Fund.

L. Litigation

The Authority is engaged in litigation including matters which involve the terrorist attacks of September 11,2001, environmental issues, the capital program and the Airside Improvements Planning Project.

On September 11, 2001, terrorists hijacked American Airlines flight 11 and United Airlines flight 175 and flew them into the World Trade Center in New York, N.Y. The terrorist acts caused the deaths of approximately 3,000 persons, unknown numbers of personal injuries, and massive property damage. Both flights originated at Logan Airport. As of September 12, 2003, the Authority was aware of approximately ninety (90) lawsuits pending against the Authority and other entities relating to these terrorist attacks. In addition, the Authority has been served with multiple Notices of Claim which state or suggest that the named claimants intend to file suit at some unspecified time in the future.

L. Litigation, continued

In September 2001, Congress passed the Air Transportation Safety and System Stabilization Act of 2001 ("ATSSSA"), which provides, among other things, that victims who suffered physical injury or death as a result of the events of September 11, 2001 could file a claim with a newly created Victim Compensation Fund. Those who seek such compensation waive the right to file a civil lawsuit. It is unknown how many victims will elect to seek such compensation. The fund created by the ATSSSA does not apply to claims for property damage, business interruption, or the like.

In November 2001, Congress passed the Aviation and Transportation Security Act. The Act provides a limitation on liability of various entities, including airport sponsors such as the Authority, for the events of September 11th. Specifically, the liability of an airport sponsor for those events "shall not be in an amount greater than the limits of liability insurance coverage maintained by that . . . airport sponsor." The Authority has insurance in effect to cover these incidents in the amount of $500,000,000 per occurrence. To the Authority's knowledge, the Authority's insurer has received copies of all complaints and Notices of Claim and/or any other form of notification to the Authority by an individual claiming to have suffered a loss.

Furthermore, to the Authority's knowledge, its insurer has agreed to defend any such claims and has not reserved its rights to deny coverage with respect to any of those claims although the insurer has reserved its rights with respect to (i) the number of occurrences, (ii) indemnification of the Authority against any award of punitive damages, and (iii) the Authority's rights as a named additional insured under other policies of insurance, including policies of the Authority's tenants and licensees.

The Authority received a M.G.L. c.21E demand letter from MRP Site Development, Inc. ("MRP") alleging that the Authority is liable for contribution, reimbursement or an equitable share of the costs of assessing and remedying contamination found at various sites as a result of MRP's use of fill or waste materials allegedly originating from the Authority's Revere Sugar site buildings in Charlestown. MRP's notice alleges that it has incurred in excess of $2,500,000 in assessment and remediation costs and related fees and anticipates additional response costs of up to $1,000,000. MRP proposes that the Authority is responsible for no less than 75% of its costs. The Authority believes it has meritorious defenses to this claim and will continue to review and assess the matter.

In March 1994, the Massachusetts Department of Environmental Protection ("DEP") sent the Authority a Notice of Responsibility ("NOR") under M.G.L. c. 21E, Section 5(a), alleging that there have been releases of oil and hazardous materials at Logan Airport and that, as the owner of Logan Airport, the Authority is a "responsible party" liable for the costs of investigating, assessing and remediating soil and groundwater contamination at the Logan Airport site. Remediation of soil and groundwater contamination at the Logan Airport contamination sites identified by DEP is continuing. Although the necessary remedial and cleanup measures have yet to be finalized, and therefore cannot be estimated, response costs under c. 21E may be substantial. The Authority, however, has recovered a significant share of its costs of compliance with c. 21E

L. Litigation, continued

from third parties who are responsible for the contamination and from liability insurance carriers who provided coverage to the Authority. The Authority has also obtained substantial commitments from third parties to conduct further c.21E compliance measures at a number of the Logan Airport contamination sites identified by DEP.

Contamination has also been discovered on various Massport properties located in South Boston. As the owner of the properties, the Authority is a "responsible party" under M.G.L. c.21E for costs of investigating and remediating the contamination at these sites. The full extent of the contamination and necessary remediation measures have not yet been determined; however, the costs could be material to the Authority's results of operations. In addition, the Authority has not yet determined whether and to what extent those costs may be recoverable from other parties responsible for the contamination.

The Authority is engaged in a significant capital program which includes a number of large and complex construction projects. It has been the Authority's experience with respect to large, complex projects that, at or near the beneficial occupancy of such projects, or a phase of such projects, contractors, subcontractors, engineers and others often assert large claims against the Authority, which claims are often, in the aggregate, in excess of 20% of the contract amount for such projects. The Authority has vigorously contested such claims and, to date, has settled all of such claims for amounts within the project budget for each such project. The Authority believes that it is likely that large claims will continue to be asserted in the future against the Authority by contractors, subcontractors, consultants and others with respect to large, complex projects now under construction. The Authority will vigorously contest any such claim; however, there can be no assurance that the Authority will prevail or that any damages awarded will be within the project budget for any such project. On or about April 18, 2003, the Authority received a claim from the general contractor for the International Gateway project for $57.1 million in additional costs and costs associated with delays. On or about January 15, 2003, the Authority received a request for equitable adjustment for approximately $12.5 million from the contractor on the Elevated Walkways to Terminal B and C project. In addition, the Authority has been named as a party in a suit by a subcontractor against the contractor on the Elevated Walkways to Terminal B and C project, *Environmental Interiors, Inc. v. M. DeMatteo Construction Co., et als*. On October 9, 2002, the Authority was served with a complaint by HBG Flatiron alleging unspecified damages arising from the terminal area roadways construction contract. While the complaint does not specify the amount of damages alleged, the Authority believes that the damages sought could be significant. Based on a preliminary review of the complaint, the Authority believes it has meritorious defenses in this action, and it will continue to review and assess the various claims asserted.

As of September 2003, the Authority was a party to three separate lawsuits related to the Airside Improvements Planning Project. One of these lawsuits was brought in Massachusetts state court by the Authority to obtain relief from a 27 year-old injunction barring certain runway construction at Logan Airport. A decision is expected in the near future. A second lawsuit was brought in state court against the Authority by the Town of Hull challenging the MEPA approval for the project, and also asserting that the current operation of the Airport constitutes a public

L. Litigation, continued

nuisance. That case was dismissed by the trial court in October 2002, and the appeal is pending. A third lawsuit was filed in the District of Columbia Circuit of the Court of Appeals in September 2002 by Communities Against Runway Expansion against the FAA challenging the FAA's Record of Decision for the project. The Authority intervened with respect to this lawsuit.

The Authority also is engaged in numerous matters of routine litigation. These matters include personal injury and property damage claims for which the Authority's liability is covered in whole or in part by insurance. Others include such matters as disputes with contractors, subcontractors, engineers and others arising out of construction and maintenance of its properties; disputes over leases and concessions; and property, theft and damage claims arising from the Authority's parking operations, as to which the Authority is self-insured. The Authority does not expect that these matters will require any amounts to be paid which, in the aggregate, will be material to the results of operations.

M. Leases

The Authority leases a major portion of its Aviation and Port Properties to various tenants. Most of these operating leases provide for periodic adjustments to rental rates. In addition, certain of the lease agreements contain provisions for contingent payments based on a specified percentage of the tenant's gross revenue. Rental income from contingent payments received under these provisions was approximately $33,681,000 and $28,294,000 for fiscal years 2003 and 2002, respectively.

Minimum future rental income, excluding contingent rentals, from noncancelable operating leases as of June 30, 2003 are:

Year	Amount (in thousands)
2004	$ 34,230
2005	31,718
2006	30,588
2007	28,904
2008	27,214
Thereafter	562,193
Total	$ 714,847

M. Leases, continued

The Authority has also entered into operating leases as the lessee. The following is a schedule by years of future minimum rental payments under noncancelable operating leases as of June 30, 2003:

Year	Amount (in thousands)
2004	$ 21,026
2005	12,692
2006	8,583
2007	8,583
2008	8,583
Thereafter	44,494
Total	$ 103,961

Rent expense was $21,906,000 and $21,022,000 for fiscal years 2003 and 2002, respectively.

N. Interagency Agreement

In May 1996, the Authority entered into an interagency agreement with the MHD and Massachusetts Bay Transportation Authority ("MBTA") for the construction of a Regional Transportation Center ("RTC") in Woburn, Massachusetts (the "Interagency Agreement").

Under the terms of the Interagency Agreement, the Authority has paid one third of the cost of acquiring the site and constructing the RTC, and will share in a like proportion in the profits and losses of the RTC.

The RTC opened in May 2001. For fiscal year 2003, the RTC's operating losses were $577,500. The Authority's proportionate share of RTC's operating losses for the fiscal year 2003 is $192,500, which is included in other expenses. Separate financial statements from the joint venture may be obtained by writing to:

RTC Joint Venture
c/o Massachusetts Port Authority
One Harborside Drive
East Boston, MA 02108
Attn: Christopher Gordon, Director of Capital Programs and Logan Modernization

O. Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to and destruction of assets, injuries to third parties and employees. The Authority maintains a risk control effort through a risk transfer program which includes insurance and indemnification in favor of the Authority from third parties. The Authority, as mandated by the 1978 Trust Agreement, maintains a Self-Insurance Account within the Operating Fund. As of June 30, 2003 and 2002, the Self-Insurance Account had assets of $34,301,000 and $32,681,000, respectively, available to pay future claims. During fiscal years 2003 and 2002, the Authority maintained ten different accounts to finance its self-insured risk which is funded through internal financing. The Authority carries insurance coverage for property, business interruption, liability and worker's compensation with various deductibles and limits and for other exposure to losses. The self

O. Risk Management, continued

insurance accruals are determined by the Risk Management Department based on insurance claim history and actuarial estimates needed to pay prior and current-year claims. The overall accrual was approximately $5,591,000 and $5,360,000 as of June 30, 2003 and 2002, respectively, and is included as a component of accrued expenses in the accompanying financial statements. Changes in the accrued liability accounts in fiscal year 2003 and 2002 are as follows:

(in thousands)

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2002	$3,080	3,066	(786)	$5,360
2003	$5,360	3,830	(3,599)	$5,591

There were no significant reductions in insurance coverage from the prior year by major category of risk. In addition, insured claims have not exceeded insurance coverage in the past three years.

As part of the risk financing program at the Authority, risk of loss is retained through deductibles or self-insured retentions. These are used in the property, business interruption, liability and workers' compensation programs, with varying retained amounts ranging from $25,000 to $500,000. These retained risks are funded through the Self Insurance Account.

The most formal programs exist in workers' compensation and third party liability. As a modified self-insurer (both risks involve insurance excess of a substantial self-insured retention), the Authority engages in loss prevention and claims management.

The Authority discharges its obligation to provide workers' compensation coverage, required by Massachusetts General Laws, Chapter 152, by obtaining a license as a self insurer from the Division of Industrial Accidents.

The property policies are currently constructed to provide loss payments for the repair, replacement or reconstruction of the damaged or destroyed property in compliance with the requirements of the 1978 Trust Agreement.

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet
June 30, 2003
(In Thousands)

	Authority Operations	PFC Program	Combined
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 42,021	$ -	$ 42,021
Investments	31,748	-	31,748
Accounts receivable – net of allowance for doubtful accounts	21,667	1,734	23,401
Accounts receivable-grants	6,728	-	6,728
Prepaid expenses and other assets	3,798	289	4,087
Total current assets	105,962	2,023	107,985
NONCURRENT ASSETS			
Assets whose use is limited			
Cash and cash equivalents	166,988	484	167,472
Investments	270,435	60,638	331,073
Prepaid expenses	20,345	2,326	22,671
Investment in joint venture	4,362	-	4,362
Intangible assets	43,177	-	43,177
Capital assets			
Completed facilities	2,411,407	524,154	2,935,561
Less accumulated depreciation	(1,028,727)	(38,907)	(1,067,634)
	1,382,680	485,247	1,867,927
Construction in progress	227,143	7,706	234,849
Capital assets, net	1,609,823	492,953	2,102,776
Total noncurrent assets	2,115,130	556,401	2,671,531
TOTAL ASSETS	$ 2,221,092	$ 558,424	$ 2,779,516

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Balance Sheet, Continued
June 30, 2003
(In Thousands)

	Authority Operations	PFC Program	Combined
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	$ 43,188	$ 3,710	$ 46,898
Compensated absences	2,020	-	2,020
Retainage	2,090	1,381	3,471
Current maturities of funded debt	23,160	9,585	32,745
Accrued interest payable	22,844	5,980	28,824
Deferred income	3,973	-	3,973
Total current liabilities	97,275	20,656	117,931
NON-CURRENT LIABILITIES			
Accrued expenses	16,719	-	16,719
Compensated absences	13,366	-	13,366
Retainage	7,135	10,684	17,819
Funded debt	1,247,353	223,337	1,470,690
Deferred income	9,151	-	9,151
Total noncurrent liabilities	1,293,724	234,021	1,527,745
Total liabilities	1,390,999	254,677	1,645,676
NET ASSETS			
Invested in capital assets, net of related debt	437,812	263,611	701,423
Restricted	338,132	40,136	378,268
Unrestricted	54,149	-	54,149
Total net assets	830,093	303,747	1,133,840
TOTAL LIABILITIES AND NET ASSETS	$ 2,221,092	$ 558,424	$ 2,779,516

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2003
(In Thousands)

	Authority Operations	PFC Program	Combined
Operating revenues:			
Logan Airport			
Fee	$ 158,477	$ -	$ 158,477
Rentals	77,378	-	77,378
Concessions	43,466	-	43,466
Other	17,622	-	17,622
	296,943	-	296,943
Hanscom			
Fee	784	-	784
Rentals	2,348	-	2,348
Concessions	880	-	880
Other	81		81
	4,093	-	4,093
Bridge			
Tolls	22,346	-	22,346
	22,346	-	22,346
Maritime			
Fee	31,221	-	31,221
Rentals	3,835	-	3,835
	35,056	-	35,056
Business Development			
Fee	1,185	-	1,185
Rentals	6,870	-	6,870
	8,055	-	8,055
Operating Grant	7,314	-	7,314
Total operating revenues	373,807	-	373,807
Operating expenses:			
Operations and maintenance	181,765	-	181,765
Administration	41,814	-	41,814
Insurance	8,685	-	8,685
Payments in lieu of taxes	12,559	-	12,559
Provision for uncollectible accounts	1,211	-	1,211
Depreciation and amortization	82,892	19,496	102,388
Total operating expenses	328,926	19,496	348,422
Operating income	44,881	(19,496)	25,385

(Continued on next page)

Massachusetts Port Authority
Supplemental Schedule of Combining Statements of Revenues, Expenses and Changes in Net Assets, Continued
For the Year Ended June 30, 2003
(In Thousands)

	Authority Operations	PFC Program	Combined
Nonoperating revenues (expenses):			
Passenger facility charges	-	29,090	29,090
Investment income	9,327	2,159	11,486
Gain/(loss) on sale of equipment	31	-	31
Interest expense	(45,472)	(334)	(45,806)
Other expense / Arbitrage	(1,268)	(2,694)	(3,962)
Total nonoperating revenue	(37,382)	28,221	(9,161)
Income before capital grant revenue	7,499	8,725	16,224
Capital grant revenue	43,994	-	43,994
Increase in net assets	51,493	8,725	60,218
Net assets, beginning of year	778,600	295,022	1,073,622
Net assets, end of year	$ 830,093	$ 303,747	$ 1,133,840

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Massachusetts Port Authority

Statistical Section

Historical Operating and Nonoperating Revenues According to GAAP
Fiscal Year Ended June 30 (In Thousands)

S-1 Operating and Nonoperating Revenues

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Revenues										
Fees, tolls and other services	$129,605	$ 139,687	$ 141,201	$ 142,460	$ 158,007	$170,839	$ 182,873	$ 187,357	$174,508	$ 214,116
Rentals	58,438	58,335	61,432	61,974	66,840	67,992	75,925	82,811	85,053	90,431
Concessions	28,763	30,794	35,235	38,031	43,654	46,461	46,315	45,495	42,741	46,829
Other	6,597	6,835	9,285	9,444	9,463	10,209	10,714	11,237	12,837	15,117
Operating grant	-	-	-	-	-	-	-	-	2,749	7,314
Total Operating Revenues	223,403	235,651	247,153	251,909	277,964	295,501	315,827	326,900	317,888	373,807
Nonoperating Revenues										
PFC Collections	14,937	31,187	33,159	32,266	33,874	35,327	36,815	36,324	29,445	29,090
Investment income	10,561	14,540	16,033	15,614	18,808	20,931	25,220	28,982	19,795	11,486
Capital Grant Revenue *	-	-	-	-	-	-	-	12,851	15,450	43,994
Other/Gain on sales of assets	-	-	5	384	577	-	139	1,664	17	31
Total Nonoperating Revenues	25,498	45,727	49,197	48,264	53,259	56,258	62,174	79,821	64,707	84,601
Total Revenues	$248,901	$ 281,378	$ 296,350	$ 300,173	$ 331,223	$351,759	$ 378,001	$ 406,721	$382,595	$ 458,408

* During 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions.* GASB Statement No. 33 requires that items of contributed capital be recorded as nonoperating revenue in the statement of revenues, expenses and changes in equity. GASB 33 states that governments should not restate contributed capital arising from periods prior to implementation of this statement.

Massachusetts Port Authority

Statistical Section

Historical Operating and Nonoperating Expenses According to GAAP
Fiscal Year Ended June 30 (In Thousands)

S-2 Operating and Nonoperating Expenses

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Expenses										
Operations and Maintenance	$ 99,991	$ 102,293	$ 108,428	$ 108,355	$ 114,197	$ 132,756	$ 135,468	$ 152,185	$ 155,510	$ 181,765
Administration	39,335	44,226	50,969	50,068	49,889	54,457	54,054	50,965	45,981	41,814
Insurance	2,675	2,904	2,756	2,646	2,414	4,234	2,313	2,880	4,332	8,685
Pension Costs	2,415	2,491	2,610	2,070	2,588	1,533	-	-	-	-
Payments in lieu of taxes	6,237	6,409	10,236	10,526	12,062	13,465	12,031	13,093	12,209	12,559
Provision for uncollectible accounts	(523)	(800)	(514)	577	815	1,255	(100)	14	1,260	1,211
Depreciation and Amortization *	42,908	46,317	48,534	52,179	60,406	65,672	75,706	71,389	81,596	102,388
Total Operating Expenses	193,038	203,840	223,019	226,421	242,371	273,372	279,472	290,526	300,888	348,422
Nonoperating Expenses										
Interest Expense	31,253	31,736	31,347	31,435	33,701	30,758	34,323	35,734	40,642	45,806
Loss from sale of equipment	-	1,137	-	-	-	98	-	-	-	-
Termination of interest rate swap	-	-	-	-	6,087	-	-	-	-	-
Other Expense / Arbitrage	-	-	-	-	-	-	-	-	-	3,962
Total Nonoperating Expenses	31,253	32,873	31,347	31,435	39,788	30,856	34,323	35,734	40,642	49,768
Total Expenses	$ 224,291	$ 236,713	$ 254,366	$ 257,856	$ 282,159	$ 304,228	$ 313,795	$ 326,260	$ 341,530	$ 398,190

* Prior to FY2000 depreciation and amortization were treated as nonoperating expenses in the Authority's Financial Statements.

Massachusetts Port Authority

Statistical Section

Historical Operating Results and Debt Service Coverage
Reconciliation Between GAAP and the 1978 Trust Agreement
Fiscal Year Ended June 30 (In Thousands)

S-3 Operating Results and Debt Service Coverage

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Operating Revenue:										
Per Financial Statements	$223,403	$235,651	$247,153	$251,909	$277,964	$295,501	$315,827	$326,900	$317,888	$373,807
Adjustments:										
Provision for uncollectible accounts	523	800	514	(577)	(815)	(1,255)	100	(14)	(1,260)	(1,211)
Other	(3)	1	-	(88)	-	1	-	-	-	
Operating grant - State Police details	-	-	-	-	-	-	-	-	-	(6,880)
Operating Revenue:										
Per the 1978 Trust Agreement	223,923	236,452	247,667	251,244	277,149	294,247	315,927	326,886	316,628	365,716
Income on Investments:										
Per Financial Statements	10,561	14,540	16,033	15,614	18,808	20,931	25,220	28,982	19,795	11,486
Adjustments:										
PFC - Trust Agreement	(120)	(1,573)	(3,244)	(4,189)	(3,748)	(3,021)	(5,948)	(5,345)	(4,045)	(2,159)
Self Insurance Accounts	(458)	(1,002)	(1,140)	(1,213)	(1,322)	(1,375)	(1,524)	(1,660)	(1,450)	(1,076)
Other	-	-	(1)	-	-	-	-	(5)	(568)	531
Park Ex	-	-	-	-	-	-	-	(368)	(773)	(820)
Income on Investments:										
Per the 1978 Trust Agreement	9,983	11,965	11,648	10,212	13,738	16,535	17,748	21,604	12,959	7,962
TOTAL REVENUES										
Per the 1978 Trust Agreement	**$233,906**	**$248,417**	**$259,315**	**$261,456**	**$290,887**	**$310,782**	**$333,675**	**$348,490**	**$329,587**	**$373,678**
Operating Expenses:										
Per Financial Statements	$193,038	$203,840	$223,019	$226,421	$242,371	$273,372	$279,472	$290,526	$300,888	$348,422
Adjustments:										
Insurance	479	207	500	619	476	(1,676)	141	10	(905)	358
Pension Adjustments	507	537	569	604	640	-	-	-	-	-
Payments in Lieu of Taxes	(6,237)	(6,409)	(10,236)	(10,526)	(12,032)	(13,465)	(12,031)	(13,093)	(12,209)	(12,559)
Provision for uncollectible accounts	523	800	514	(577)	(815)	(1,255)	100	(14)	(1,260)	(1,211)
Depreciation and Amortization	(42,908)	(46,317)	(48,534)	(52,179)	(60,406)	(65,672)	(75,706)	(71,389)	(81,597)	(102,388)
Other Expenses	(3,000)	1	(13)	(26)	(531)	(3,288)	(250)	(1,096)	(1,451)	(1,923)
Other Expense / State Police Details	-	-	-	-	-	-	-	-	-	(6,880)
TOTAL EXPENSES										
Per the 1978 Trust Agreement	142,402	152,659	165,819	164,336	169,703	188,016	191,726	204,944	203,466	223,819
Net Revenue:										
Per the 1978 Trust Agreement	**$91,504**	**$95,758**	**$93,496**	**$97,120**	**$121,184**	**$122,766**	**$141,949**	**$143,546**	**$126,121**	**$149,859**
Annual Debt Service (1)	**$48,018**	**$48,024**	**$47,054**	**$47,061**	**$46,560**	**$56,956**	**$57,444**	**$64,965**	**$69,711**	**$74,089**
Annual Debt Service Coverage (1)	1.89	1.99	1.99	2.06	2.60	2.16	2.47	2.21	1.81	2.02

(1) Proceeds of passenger facility charges ("PFCs") are excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement.
As used in the table, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds, net of Capitalized Interest (other than PFC Revenue Bonds,Commercial Paper, Subordinated Revenue Bonds and Special Facilities Revenue Bonds) outstanding for the applicable fiscal year.

MASSACHUSETTS PORT AUTHORITY
Statistical Section

HISTORICAL OPERATING RESULTS AND DEBT SERVICE COVERAGE ACCORDING TO THE 1978 TRUST AGREEMENT
For Fiscal year Ended June 30
(In Thousands)

S-3A Operating Results and Debt Service Coverage According to the 1978 Trust Agreement

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenues:										
Airport Properties - Logan										
Landing Fees	$42,012	$44,981	$45,349	$49,053	$50,809	$51,990	$52,930	$56,141	$49,656	$68,969
Parking Fees	44,989	50,746	55,892	54,326	58,214	63,931	71,108	73,269	64,007	75,381
Utility Fees	10,980	11,339	11,503	11,695	12,495	11,874	12,488	14,170	13,731	13,577
Terminal Rentals	33,775	33,819	34,604	34,763	39,164	37,689	40,328	40,879	41,771	47,109
Non-Terminal Building and Ground Rents	19,080	20,238	20,826	21,332	21,095	22,444	26,264	29,949	29,851	30,269
Concessions	26,758	28,802	32,879	35,948	41,051	44,462	44,190	44,370	41,371	45,949
Other	7,278	6,991	9,147	9,329	11,155	10,062	10,863	11,236	15,275	14,912
	184,872	196,916	210,200	216,446	233,983	242,452	258,171	270,014	255,662	296,166
Airport Properties - Hanscom	2,286	2,136	2,358	2,445	2,850	2,943	3,579	4,073	4,949	4,093
Total Airport Properties	187,158	199,052	212,558	218,891	236,833	245,395	261,750	274,087	260,611	300,259
Port Properties										
Maritime	25,271	25,586	23,033	20,574	22,354	30,098	34,689	32,155	31,562	35,056
Business Development	6,115	5,918	5,958	5,407	5,476	7,107	7,279	7,454	7,019	8,055
	31,386	31,504	28,991	25,981	27,830	37,205	41,968	39,609	38,581	43,111
Bridge	5,379	5,896	6,118	6,372	12,486	11,647	12,209	13,190	17,436	22,346
Total Operating Revenue	223,923	236,452	247,667	251,244	277,149	294,247	315,927	326,886	316,628	365,716
Investment Income (1)	9,983	11,965	11,648	10,212	13,738	16,535	17,748	21,604	12,959	7,962
Total Revenues	233,906	248,417	259,315	261,456	290,887	310,782	333,675	348,490	329,587	373,678
Operating Expenses (2):										
Airport Properties										
Logan	102,174	108,606	120,469	121,556	124,572	136,400	139,896	153,010	150,610	163,782
Hanscom	3,255	3,263	3,213	3,201	3,116	3,133	3,394	4,040	3,910	4,642
	105,429	111,869	123,682	124,757	127,688	139,533	143,290	157,050	154,520	168,424
Port Properties										
Maritime	26,049	29,305	28,355	26,312	29,169	34,626	34,719	33,420	34,054	40,064
Business Development	4,500	4,780	6,533	6,285	6,076	6,642	6,414	6,822	7,040	6,621
	30,549	34,085	34,888	32,597	35,245	41,268	41,133	40,242	41,094	46,685
Bridge	6,424	6,705	7,249	6,982	6,740	7,215	7,303	7,652	7,852	8,710
Total Operating Expenses	142,402	152,659	165,819	164,336	169,673	188,016	191,726	204,944	203,466	223,819
Net Revenues	$91,504	$95,758	$93,496	$97,120	$121,214	$122,766	$141,949	$143,546	$126,121	$149,859
Annual Debt Service	$48,018	$48,024	$47,054	$47,061	$46,560	$56,956	$57,444	$64,965	$69,711	$74,089
Annual Debt Service Coverage	1.91	1.99	1.99	2.06	2.60	2.16	2.47	2.21	1.81	2.02

(1) Excludes investment income deposited into Construction and PFC Funds.
(2) Includes allocation for all operating expenses related to Authority General Administration.

Insurance Renewals
Fiscal Year Ended June 30, 2003

S-4 Annual Insurance Renewals

TYPE OF COVERAGE	BROKER / UNDERWRITER	PREMIUM
PROPERTY INSURANCE		
All Risk Property Insurance including Boiler and Machinery and Contractor's Equipment and Tobin Bridge U & O	Hobbs Group, LLC / Lexington Insurance Company, Royal Indemnity Company Lloyd's of London	$2,852,769 (1)
Property Terrorism Coverage		$796,390
Hull Insurance - Fireboat, State Police Patrol Boat Including Terrorism Coverage	Customhouse Marine / Continental Insurance Company	$9,884
LIABILITY INSURANCE		
Aviation General Liabilty Primary and Excess	Sheppard Riley Coughlin / ACE Property and Casualty	$2,224,471
Airport Terrorism Coverage		$871,929
Comprehensive Marine Liability Terminal Operator's Liability Primary and Excess	Sheppard Riley Coughlin / American Home Assurance Company Lexington Insurance Company	$216,375 (2)
Marine Terrorism Coverage		$19,550
Bridge General Liability Primary, Including Terrorism	Sheppard Riley Coughlin / American Home Assurance Company Lexington Insurance Company	$288,500 (3)
Stevedore's Legal Liability Primary and Excess	Sheppard Riley Coughlin / American Home Assurance Company	$175,000 (4)
Stevedore's Terrorism Coverage		$20,000
Automobile Liability Including Bus Liabilty	Sheppard Riley Coughlin Hanover Insurance Company	$612,825 (5)
OTHER COVERAGES		
Crime, Dishonesty Burglary and Robbery	Marsh USA, Inc. Travelers Casualty & Surety	$22,499
Secretary-Treasurer's Bond	Marsh USA, Inc. Hartford Insurance Company	$3,025
Customs Bond	Marsh USA, Inc. American Casualty Company	$825

(1) Premium is adjustable based upon replacement cost of construction projects completed during the policy term at $.103 per $100 of new construction.
(2) Premium is adjustable based upon a rate of $.225 per $100 of gross receipts.
(3) Premium is adjustable based upon a rate of $13.28 per 1,000 vehicles exceeding 24 million.
(4) Premium is adjustable based upon a rate4 of $2.05 per $100 of payroll.
(5) Premium is adjustable based upon a rate of $1,423 per registered vehicles.

Massachusetts Port Authority

Statistical Section

Logan International Airport
Traffic Statistics
Fiscal Year Ended June 30

S-5 Logan International Airport Statistics - In-Bound and Out-Bound Traffic

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Aircraft Operations (1)										
Domestic (2)	224,023	223,288	216,018	218,630	227,781	237,276	247,979	247,298	197,844	190,609
International (3)	41,661	39,715	39,146	38,053	43,273	47,423	43,414	48,699	39,883	39,234
Regional	194,656	169,727	181,309	179,832	195,178	185,963	162,062	167,820	145,749	123,702
General Aviation	24,023	24,070	25,085	28,197	30,142	33,918	40,371	31,687	25,524	27,880
Total Operations	484,363	456,800	461,558	464,712	496,374	504,580	493,826	495,504	409,000	381,425
Enplaned Plus Deplaned Passengers										
Domestic (2)										
Enplaned	9,172,852	9,339,562	9,567,226	9,642,929	9,934,156	10,025,973	10,510,792	10,135,550	8,052,257	8,284,960
Deplaned	9,229,641	9,400,897	9,620,396	9,715,636	9,964,942	10,107,352	10,514,006	10,194,716	8,088,769	8,304,108
International (3)										
Enplaned	1,824,854	1,783,986	1,712,139	1,753,328	1,896,499	2,089,101	2,202,592	2,377,178	1,904,246	1,906,562
Deplaned	1,822,943	1,801,790	1,739,503	1,772,306	1,882,741	2,065,148	2,170,689	2,335,959	1,889,185	1,919,516
Regional										
Enplaned	1,084,375	956,853	1,084,601	1,017,862	1,183,254	1,134,641	1,086,632	1,145,938	1,069,742	1,058,709
Deplaned	1,091,474	948,943	1,054,636	1,016,331	1,159,076	1,112,732	1,058,307	1,140,587	1,047,558	1,042,212
Subtotal	24,226,139	24,232,031	24,778,501	24,918,392	26,020,668	26,534,947	27,543,018	27,329,928	22,051,757	22,516,067
General Aviation										
Enplaned	42,004	40,795	43,746	49,980	53,681	62,030	64,269	57,985	46,302	47,072
Deplaned	41,635	40,708	44,835	51,268	54,797	58,842	53,878	55,369	45,051	45,471
Total Passengers	24,309,778	24,313,534	24,867,082	25,019,640	26,129,146	26,655,819	27,661,165	27,443,282	22,143,110	22,608,610
Average Passengers Per Flight										
Domestic (2)	82.1	83.9	88.8	88.5	87.4	85.0	84.8	82.2	81.6	87.0
International (3)	87.6	90.3	88.2	92.7	87.3	87.0	100.7	96.8	95.1	97.5
Regional	11.2	11.2	11.8	11.3	12.0	12.1	13.2	13.6	14.5	17

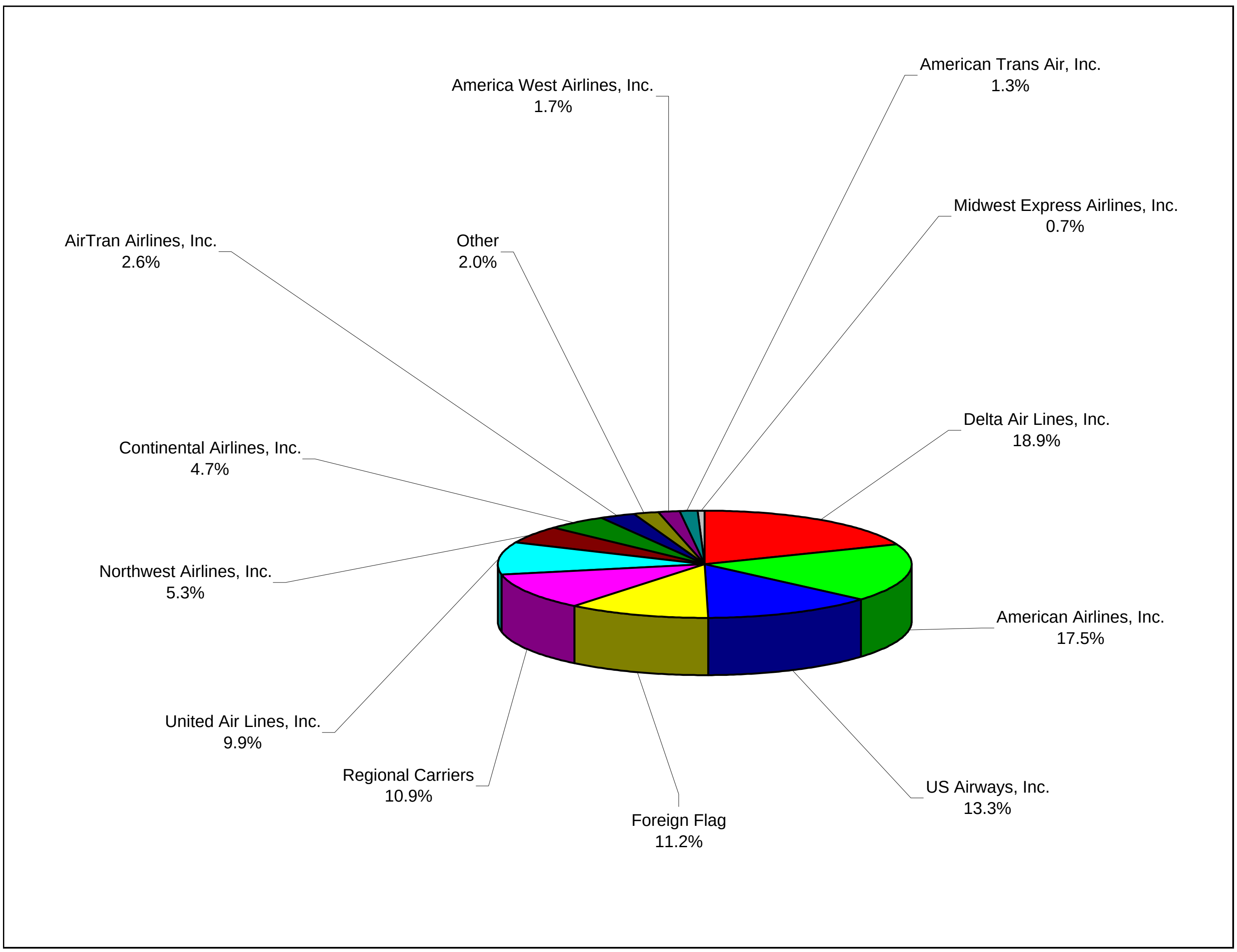
(1) Includes all-cargo flights, but excludes helicopters
(2) Includes jet and charter
(3) Includes jet, charter and international commuter

Massachusetts Port Authority

Statistical Section

Logan International Airport
Percentage of Total Passenger Traffic
Fiscal Year Ended June 30, 2003

S-6 Logan International Airport - Fiscal Year 2003 Percentage of Total Passenger Traffic



Massachusetts Port Authority

Statistical Section

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Logan International Airport
Percentage of Total Mail, Express Packages and Cargo
Fiscal Year Ended June 30, 2003

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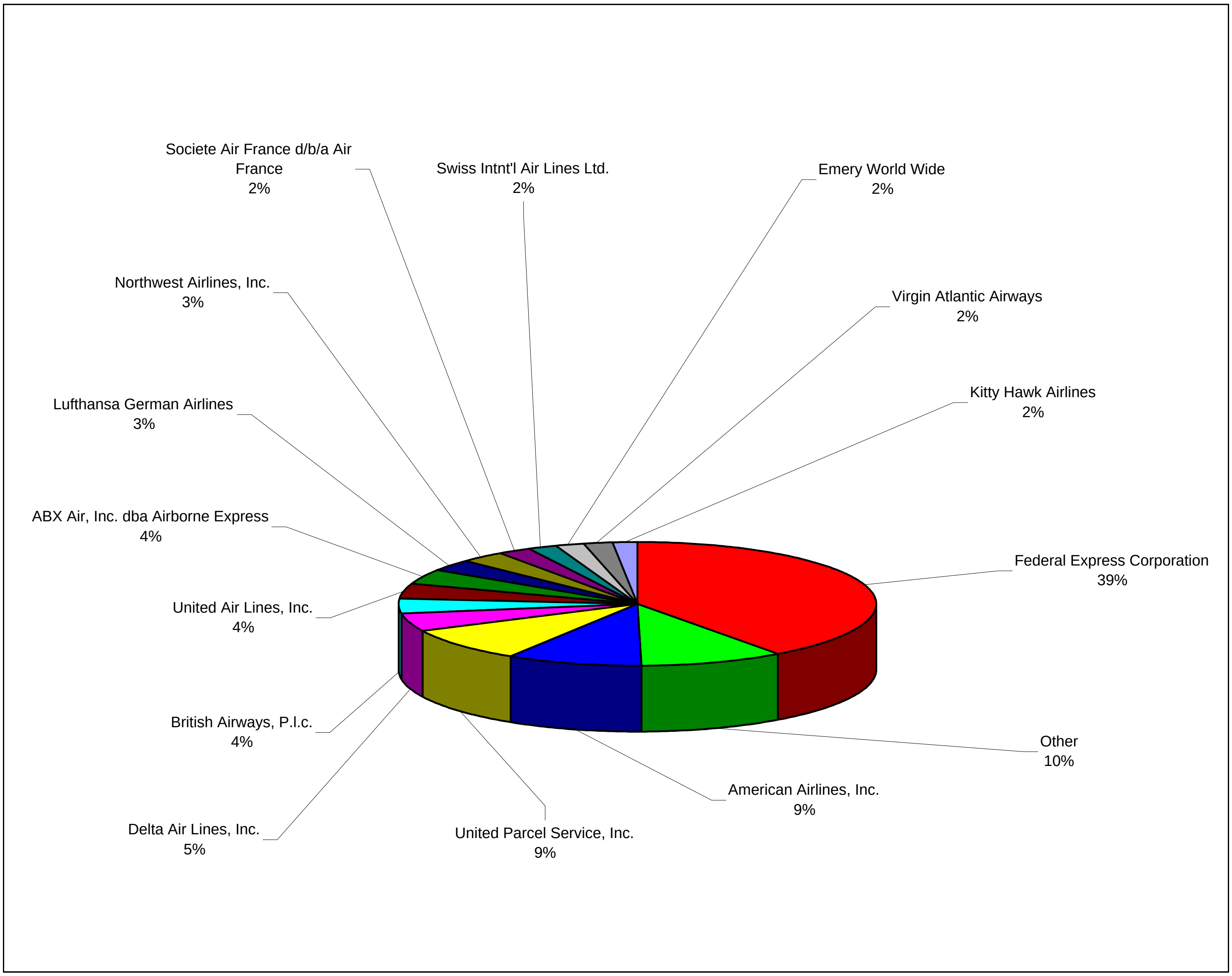
S-7 Logan International Airport - Fiscal Year 2003 Percentage of International and Domestic Mail, Express Packages and Cargo



S-8 Logan International Airport – Passenger Markets

The following table shows the percentage of passengers traveling on U.S. air carrier airlines to or from the Airport and other final domestic destinations for calendar year 2002, as reported by the United States Department of Transportation ("DOT"). International passengers are not included. It also shows the comparative ranking of the top 20 domestic destinations for the same period and for the preceding calendar year.

Calendar 2001 Rank	Calendar 2002 Rank	Market	Calendar 2002 Percentage
1	1	New York, New York / Newark, New Jersey	10.6%
2	2	Washington, DC	5.8
4	3	South Florida	5.6
8	4	Chicago, Illinois	4.8
6	5	Atlanta, Georgia	4.6
5	6	Orlando, Florida	4.6
3	7	San Francisco, California	4.6
7	8	Los Angeles, California	3.9
17	9	Baltimore, Maryland	3.3
11	10	Dallas, Texas	2.6
9	11	Philadelphia, Pennsylvania	2.5
12	12	Denver, Colorado	2.4
10	13	Tampa, Florida	2.3
15	14	Las Vegas, Nevada	2.2
16	15	Fort Meyers, Florida	1.9
13	16	Minneapolis - St. Paul, Minnesota	1.8
20	17	Raleigh-Durham, North Carolina	1.6
19	18	Houston, Texas	1.5
18	19	San Juan, Puerto Rico	1.4
*	20	Phoenix, Arizona	1.4
		Total for Cities Listed	58.91%

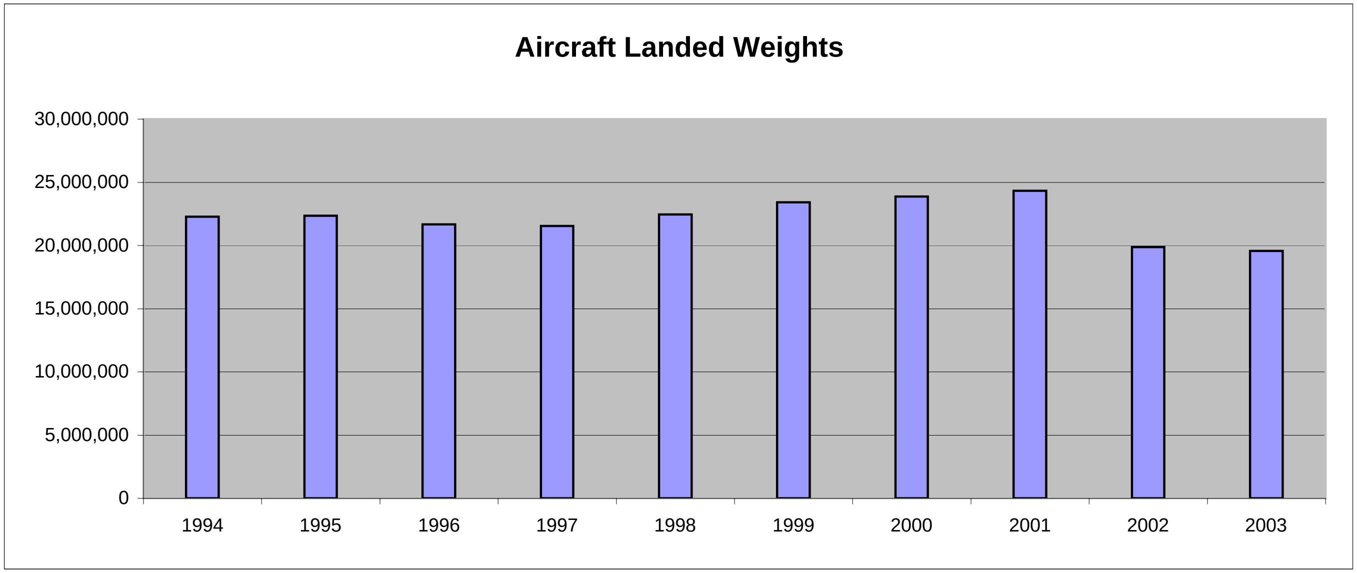
Source: United States Department of Transportation, OD1A Database

* Not listed in top twenty for calendar year 2001.

LOGAN INTERNATIONAL AIRPORT
AIRCRAFT LANDED WEIGHTS
FISCAL YEAR ENDED JUNE 30 (IN Thousands)

S-9 Logan International Airport Statistics - Aircraft Landed Weights

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Aircraft Landed Weights	22,270,000	22,358,000	21,672,000	21,554,000	22,447,000	23,412,000	23,878,000	24,324,000	19,872,000	19,576,000



Massachusetts Port Authority

Statistical Section

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LOGAN INTERNATIONAL AIRPORT

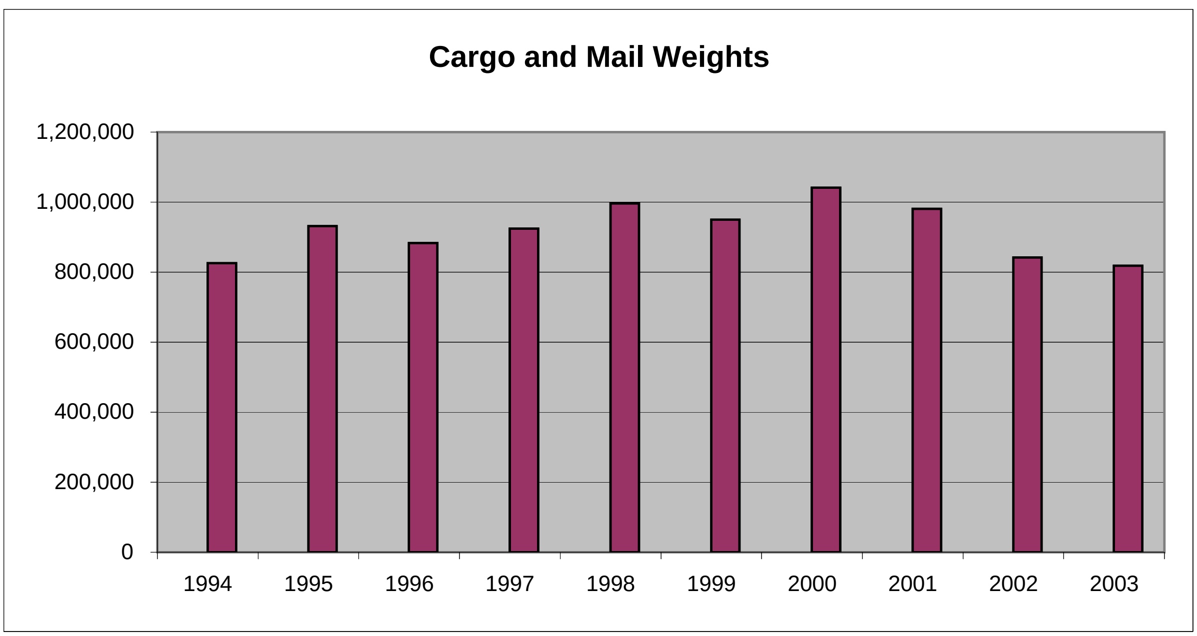
CARGO AND MAIL WEIGHTS

FISCAL YEAR ENDED JUNE 30 (IN THOUSANDS)

……………………………………………………………

S-10 Logan International Airport Statistics - Cargo and Mail Weights

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Cargo & Mail	825,183	931,936	883,001	923,941	996,371	949,338	1,040,877	980,385	842,249	817,843



Massachusetts Port Authority

Statistical Section

LOGAN INTERNATIONAL AIRPORT
PASSENGER FACILITY CHARGE PROJECT ACTIVITY

Fiscal Year Ended June 30, 2003 (In Thousands)

S-11 Passenger Facility Charge

PROJECTS	Charge Effective Date	Approval of Use Date	Cumulative Expenditures to Date	Approval of Use Amount
Project: Residential Sound Insulation (RSIP)	01-Nov-93	27-Jan-97	$15,325	$26,990
Project: Logan Modernization Program (LMP) Planning, Preliminary Design and Environmental Analysis	01-Nov-93	24-Aug-93	9,514	10,346
Project: Terminal E Modernization	01-Nov-93	27-Jan-97	20,892	24,568
Project: Roadway System (Circulation)	01-Nov-93	27-Jan-97	119,133	268,306
Project: International Gateway	01-Nov-93	05-Feb-98	51,842	434,106
Project: Elevated Walkways	01-Jan-01	27-Jan-97	109,638	163,037
			$326,344	$927,353

Massachusetts Port Authority
Statistical Section

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LOGAN INTERNATIONAL AIRPORT

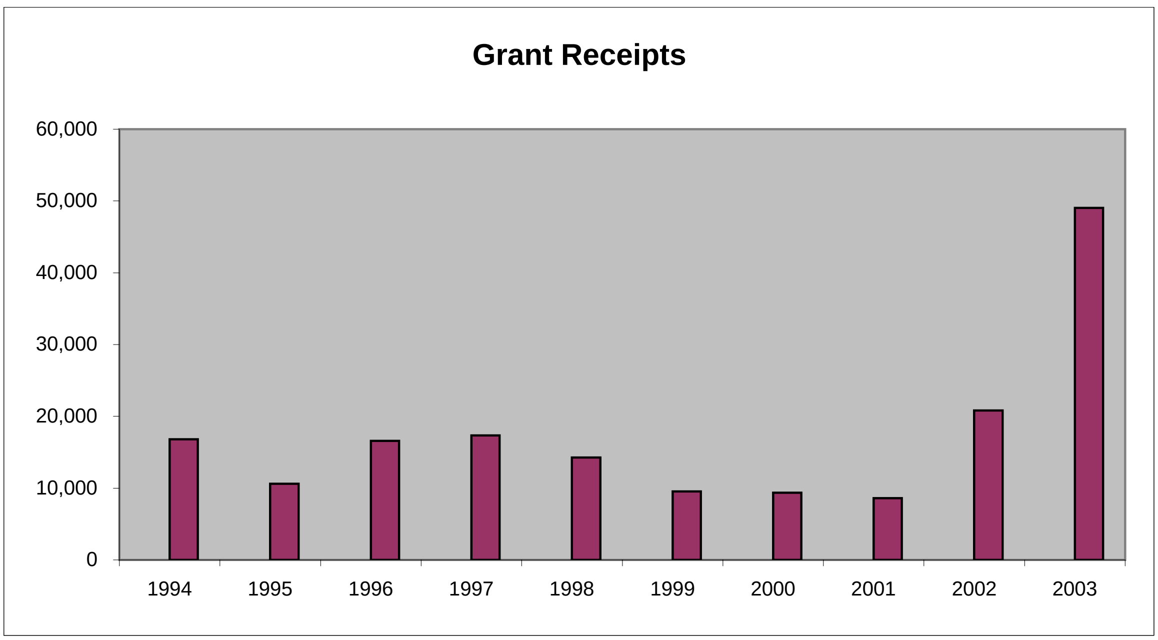
AIRPORT IMPROVEMENT PROGRAM (AIP) GRANT RECEIPTS

Fiscal Year Ended June 30 (In Thousands)

……………………………………………………

S-12 Grant Receipts History

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Fiscal Year Receipts	$16,809	$10,618	$16,599	$17,329	$14,277	$9,520	$9,370	$8,588	$20,814	$49,039



Certain expenditures for airport capital improvements and residential soundproofing are significantly funded through the Airport Improvement Program (AIP) of the Federal Aviation Administration (FAA).
In September 2002, the FAA awarded a discretionary $30 million Airport Improvement Program grant to the Authority for its 100% in-line screening of checked baggage project.

Massachusetts Port Authority

Statistical Section

PORT OF BOSTON
CARGO AND PASSENGER ACTIVITY
Fiscal Year Ended June 30

S-13 Cargo and Passenger Activity

Port Activity	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Containers (1)	86,114	90,921	73,083	72,291	78,808	83,544	83,407	74,901	72,537	86,149
Cruise Passengers	22,930	79,520	69,075	69,905	109,708	115,625	156,769	186,070	246,539	207,254
Automobiles (2)	32,304	21,971	36,010	62,282	72,333	74,060	87,973	89,348	80,070	29,559
Bulk Tonnage	184,963	243,147	355,042	205,621	248,204	217,103	168,600	158,705	207,583	162,824

(1) Does not include over-the-road volumes.
(2) Includes vehicles entered by over-the-road means through September 1998: does not include vehicles entered by over-the-road means after September 1998.

Massachusetts Port Authority

Statistical Section

PORT OF BOSTON
PRINCIPAL CUSTOMERS
Fiscal Year Ended June 30, 2003

S-14 Principal Customers

Direct Service	Shipping Lines	Cruise Lines	Large Customs House Brokers
Atlantic Container Line	China Ocean Shipping	Carnival Cruise Line	AIS International, Inc.
China Ocean Shipping Co.	Evergreen America	Crystal Cruises	C.H. Powell Company
CMA - CGM	Hanjin	Holland America Line	Danzas A & I
Columbia Coastal Transport	Hapag Lloyd	Norwegian Cruise Line	Deringer, A.N.Inc.
Hanjin Shipping	K-Line	P & O Cruises	Dynasty International
K-Line	Lykes Line	Princess Cruises	Emery Worldwide
Mediterranean Shipping Corp.	Maersk SeaLand	Royal Caribbean Cruise Line	Expeditors International
SPM Marine Line	Mediterranean Shipping Company	Seabourn Cruise Line	Fedex Trade Networks
Yang Ming Line	Orient Overseas Container Line	Silversea Cruises	Kuehne & Nagel, Inc.
	Yang Ming Line	Hapag Lloyd	Liberty International
	ZIM Container	Costa Cruise Line	UPS Freight Services
	Lloyd Triestino	Radisson Cruise Lines	Panalpina, Inc.
	Senator	Phoenix Reisin	Albatrans
	Lykes Line	Swan Hellenic	Geologistics America

Massachusetts Port Authority

STATISTICAL SECTION

TOBIN MEMORIAL BRIDGE
Fiscal Year Ended June 30

S-15 Bridge Statistics (In-Bound)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Resident: Vehicles with Sticker *	2,938,818	2,796,181	1,386,017	165,360	348,192	388,825	395,526	388,815	391,961	512,014
Class 1 Passenger *	6,648,313	8,903,972	10,300,122	11,762,019	10,468,960	9,888,389	10,025,617	10,898,566	10,218,593	9,817,665
Total Passenger Vehicles	9,587,131	11,700,153	11,686,139	11,927,379	10,817,152	10,277,214	10,421,143	11,287,381	10,610,554	10,329,679
Class 2 - 6 Commercial **	1,167,641	473,785	380,809	357,179	782,599	675,747	821,852	990,900	924,235	909,273
Total Paying Vehicles	10,754,772	12,173,938	12,066,948	12,284,558	11,599,751	10,952,961	11,242,995	12,278,281	11,534,789	11,238,952
MBTA (Massachusrtts Bay Transportation Authority)	48,502	62,863	55,957	49,753	56,567	62,239	67,471	68,358	54,620	30,883
Non-Revenue	53,710	56,655	70,243	73,531	64,478	53,239	41,425	43,264	43,878	48,183
Total Non-Paying Vehicles	102,212	119,518	126,200	123,284	121,045	115,478	108,896	111,622	98,498	79,066
TOTAL VEHICLES	10,856,984	12,293,456	12,193,148	12,407,842	11,720,796	11,068,439	11,351,891	12,389,903	11,633,287	11,318,018

* Prior to January 1996 all motorists having passenger vehicles could purchase a Bridge sticker and pay a discounted toll. This program was discontinued and only residents of Charlestown and Chelsea , who qualified, were allowed a discounted toll.

** Beginning in Fiscal Year 1995 commercial vehicles hauling hazardous materials were no longer allowed to use the Bridge.

STATEMENT OF
ANNUAL FINANCIAL INFORMATION
AND OPERATING DATA
of the
MASSACHUSETTS PORT AUTHORITY
FOR FISCAL YEAR 2003

INTRODUCTION

This Statement of Annual Financial Information and Operating Data dated as of October 24, 2003 (the "Annual Disclosure Statement") of the Massachusetts Port Authority (the "Authority") is prepared and submitted in accordance with the requirements of the Continuing Disclosure Agreement, dated as of August 1, 1997 (the "Continuing Disclosure Agreement"), between the Authority and U.S. Bank National Association (as successor to State Street Bank and Trust Company), as trustee (the "Trustee"), and the Trust Agreement dated as of May 1, 1997 between the Authority and the Trustee relating to the BOSFUEL Bonds (as defined below). Set forth below is certain financial information and operating data relating to the Authority for the fiscal year ended June 30, 2003 ("fiscal year 2003") updating the financial information and operating data presented in the Authority's Official Statement dated May 22, 2003 (the "2003 Official Statement") and the Authority's Statement of Annual Financial Information and Operating Data dated as of November 15, 2002 (the "2002 Annual Disclosure Statement"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the 2003 Official Statement. This Annual Disclosure Statement is part of the Authority's Comprehensive Annual Financial Report dated October 24, 2003 (the "CAFR") for fiscal year 2003 and the remaining sections of the CAFR are incorporated herein by reference. The Authority's audited financial statements for fiscal year 2003 and comparative information for fiscal year 2002, prepared in accordance with generally accepted accounting principles ("GAAP"), with a report thereon by PricewaterhouseCoopers LLP, independent public auditors, are also included as the financial section of the CAFR. The 2003 Official Statement and the 2002 Annual Disclosure Statement are each on file with each Nationally Recognized Municipal Securities Information Repository ("NRMSIR").

This Annual Disclosure Statement applies to the following Series of Bonds issued by the Authority (collectively, the "Bonds"):

Massachusetts Port Authority Revenue Bonds, Series 2003-A (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 2003-B (Auction Rate Securities) (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 2003-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-C (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1999-D (AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-A (Non-AMT)
Massachusetts Port Authority Revenue Refunding Bonds, Series 1998-B (AMT)
Massachusetts Port Authority Taxable Revenue Refunding Bonds, Series 1998-C
Massachusetts Port Authority Revenue Bonds, Series 1998-D (Non-AMT)
Massachusetts Port Authority Revenue Bonds, Series 1998-E (AMT)
Massachusetts Port Authority Revenue Bonds, Series 1997-A
Massachusetts Port Authority Revenue Bonds, Series 1997-B
Massachusetts Port Authority Revenue Refunding Bonds, Series 1997-C

Massachusetts Port Authority Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997

The Authority has issued 13 series of bonds pursuant to the Trust Agreement dated as of August 1, 1978, as supplemented and amended (the "1978 Trust Agreement") between the Authority and the Trustee which remain outstanding as of the date hereof. On May 29, 2003, the Authority issued $388,195,000 of its revenue and revenue refunding bonds. The 2003-A Bonds and the 2003-B Bonds were issued, in part, to finance a portion of the Authority's FY03-FY07 Capital Program. The 2003-B Bonds were also issued, in part, to currently refund all of the Authority's Revenue Bonds, Series 1992-A and the 2003-C Bonds were issued to currently refund all of the Authority's Revenue Bonds, Series 1992-B and all of the Authority's Revenue Refunding Bonds, Series 1993-A and B. On December 29, 2000 and January 2, 2001, respectively, the Authority issued its Subordinated Revenue Bonds, Series 2000-A, 2000-B and 2000-C, and Series 2001-A, 2001-B and 2001-C, respectively, in the aggregate principal amount of $74,000,000 (collectively, the "Subordinated Revenue Bonds"). The Subordinated Revenue Bonds are payable solely from amounts on deposit in the Improvement and Extension Fund established under the 1978 Trust Agreement and in a separate account not subject to the pledge of the 1978 Trust Agreement. The Subordinated Revenue Bonds are subordinate to all of the revenue bonds issued prior to the date hereof by the Authority pursuant to the 1978 Trust Agreement.

On June 16, 1999, the Authority issued its $67,665,000 PFC Revenue Bonds, Series 1999-A (Non-AMT) and $181,690,000 PFC Revenue Bonds, Series 1999-B (AMT) (collectively, the "PFC Bonds") pursuant to a PFC Revenue Bond Trust Agreement dated as of May 6, 1999, as supplemented and amended (the "PFC Trust Agreement"), between the Authority and The Bank of New York, as trustee (the "PFC Trustee"). Pursuant to the Continuing Disclosure agreement dated as of May 6, 1999 (the "PFC Disclosure Agreement") between the Authority and The Bank of New York, the Authority is also issuing as of the date of the CAFR its Statement of Annual Financial Information and Operating Data for fiscal year 2003 (the "2003 PFC Disclosure Statement") with respect to the PFC Bonds. The 2003 PFC Disclosure Statement has been filed with each NRMSIR and is also available from the Authority and the PFC Trustee.

On August 16, 2001, the Authority issued its Special Facilities Revenue Bonds (Delta Air Lines, Inc. Project), Series 2001A, 2001B and 2001C (collectively, the "Delta Project Bonds") in aggregate principal amount of $497,585,000. On March 1, 2001, the Authority issued its Special Facilities Revenue Refunding Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 2001-A (Tax-Exempt) and 2001-B (Taxable) (collectively, the "Hyatt Bonds"), a portion of the proceeds of which were applied to refund all of the Authority's outstanding Special Facilities Revenue Bonds (Harborside Hyatt Conference Center and Hotel Project), Series 1990. On December 9, 1999, the Authority issued $80,500,000 of its Special Facilities Revenue Bonds (United Air Lines, Inc. Project), Series 1999A (the "United Project Bonds"). As a result of United Air Lines' filing for bankruptcy protection in December 2002, the trustee for the United Project Bonds has issued notice of an event of default. On October 21, 1999, the Authority issued its $33,120,000 Special Facilities Revenue Bonds (US Airways Project), Series 1999 (the "1999 US Airways Project Bonds") and on January 2, 1997, the Authority issued its $48,980,000 Special Facilities Revenue Bonds (USAir Project), Series 1996A (the "1997 USAir Project Bonds" and collectively with the 1999 US Airways Project Bonds, the "US Airways Project Bonds").

The Authority did not undertake any ongoing disclosure obligations in connection with the issuance of the Subordinated Revenue Bonds, the Delta Project Bonds, the Hyatt Bonds, the United Project Bonds or the US Airways Project Bonds. On May 15, 1997, the Authority issued its $111,320,000 Special Facilities Revenue Bonds (BOSFUEL Project), Series 1997 (the "BOSFUEL Bonds").

Copies of the 2003 Official Statement and the Authority's Official Statement dated May 9, 1997 relating to the BOSFUEL Bonds (together, the "Official Statements") are available from the Authority and the Municipal Securities Rulemaking Board ("MSRB"). For a more complete description of the Authority and the Bonds, reference is made to the Official Statements.

The Authority's principal office is located at One Harborside Drive, Suite 200S, East Boston, Massachusetts 02128. Its telephone number is (617) 428-2800. Questions may be directed to Leslie A. Kirwan, the Authority's Director of Administration and Finance and Secretary-Treasurer.

Annual Disclosure Statement

This Annual Disclosure Statement is of limited scope. It contains only an updating of certain financial information and operating data described below. ***Except as expressly noted, all information presented in this Annual Disclosure Statement is on the basis required under the 1978 Trust Agreement, and not on the basis of GAAP.*** For a comparison of the Authority's financial results under the 1978 Trust Agreement and GAAP, please refer to Tables S-3 and S-3A (Historical Operating Results and Debt Service Coverage Reconciliation between GAAP and the 1978 Trust Agreement) set forth in the statistical section of the CAFR. The information set forth herein does not contain all material information concerning the Bonds or the Authority necessary to make an informed investment decision. This Annual Disclosure Statement does not constitute an offer to sell or the solicitation of an offer to buy the Bonds.

This Annual Disclosure Statement is submitted pursuant to the Continuing Disclosure Agreement and the obligations of the Authority entered into in 1997 in connection with the BOSFUEL Bonds. The intent of the Authority's undertaking under the Continuing Disclosure Agreement is to provide on a continuing basis for the benefit of the owners of the Bonds and any other bonds of the Authority which are designated by resolution of the Authority as subject to and having the benefits of the Continuing Disclosure Agreement the information described in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934. Pursuant to the Continuing Disclosure Agreement, the Authority has agreed with respect to the Bonds to provide, or cause to be provided, certain annual financial information and operating data, prepared on the basis of the 1978 Trust Agreement, and notices of material events. In addition, in connection with the issuance of the BOSFUEL Bonds, the Authority undertook a limited obligation to provide annual updated data with respect to certain information regarding the Airport. The Authority reserves the right to modify the disclosure required under the Continuing Disclosure Agreement, or the format of such disclosure, so long as any such modification is permitted by the Rule.

The purpose of the Authority's undertaking is to conform to the requirements of the Rule and not to create new contractual or other rights for the Trustee or for the underwriters of the Bonds, any registered owner or beneficial owner of Bonds, any municipal securities broker or dealer, any potential purchaser of the Bonds, the SEC, or any other person. The sole remedy in the event of any actual or alleged failure by the Authority to comply with any provision of the Continuing Disclosure Agreement shall be an action for the specific performance of the Authority's obligations thereunder and not for money damages in any amount. Any failure by the Authority to comply with any provision of such undertaking shall not constitute an event of default under the 1978 Trust Agreement or any other instrument relating to the Bonds.

UPDATED OPERATING INFORMATION

Airport Properties

Boston-Logan International Airport (the "Airport") continues to be the principal source of the Authority's Revenues, Net Revenues and net income, and is the dominant factor in the determination of the Authority's financial condition. In fiscal year 2003, the Airport accounted for 79.3% of the Authority's Revenues and 88% of the Authority's Net Revenues, as defined in the 1978 Trust Agreement. For additional information regarding activities at the Airport Properties during fiscal year 2003, please refer to pages 2-3 to the Letter of Transmittal to the CAFR and to statistical information presented in

Tables S-5, S-6, S-7, S-8, S-9 and S-10. Tables S-5, S-9 and S-10 in the statistical section of the CAFR summarize Airport traffic statistics for the ten most recent fiscal years.

Logan Airport plays a leading role in New England's air service infrastructure. The Airport provides a wide range of service to short, medium, and long range domestic destinations as well as to international destinations. Over the past several years, regional airports in New England, most notably T.F. Green Airport in Providence, Rhode Island, ("T.F. Green") and Manchester Airport in Manchester, New Hampshire ("Manchester"), have increasingly provided service to predominately short- and mid-range domestic destinations to a significant degree through low-cost carriers. The Authority has worked with these airports to provide enhanced service to New England air travelers.

In calendar year 2002, based upon total passenger volume, Logan Airport was the most active in New England, the 20th most active in the United States and the 37th most active in the world, according to the Airports Council International ("ACI"). Enplaned plus deplaned passengers at the Airport for fiscal year 2003 totaled approximately 22.5 million passengers, excluding general aviation. This is a 2.1% increase from the 22.1 million passengers that used the Airport in fiscal year 2002.

The primary destinations of passengers using the Airport for calendar year 2002 were all Florida destinations (15.7%), the New York/New Jersey area (10.6%) and Washington, DC/Baltimore (9.1%). About 10.8% of domestic passengers traveled to the West Coast cities of San Francisco, Los Angeles, Seattle and San Diego. During that same period, international traffic at the Airport accounted for approximately 17.1% of overall traffic.

In fiscal year 2003, international passengers (including those traveling on foreign flag and regional carriers) accounted for 16.9% of passenger traffic, or approximately 3.8 million passengers. The shares of international passengers at the Airport were 10.7% for Europe and the Middle East, 2.7% for Canada, and 3.3% for Bermuda and the Caribbean. In fiscal year 2003, the top five international origin-destination markets were London, Toronto, Paris, Dublin and Frankfurt. International passenger traffic grew as a percentage of overall traffic through fiscal 2001, but fell nominally as a percentage of overall traffic in 2002. Actual international passenger traffic grew by 0.9% from fiscal year 2002 to fiscal year 2003.

In fiscal year 2003, regional airlines accounted for approximately 9.3% of total passenger traffic at the Airport, or approximately 2.1 million passengers. The number of regional passengers grew from fiscal year 1999 to fiscal year 2001 by 1.7%, declined by 7.4% from fiscal year 2001 to 2002, and declined from fiscal year 2002 to fiscal year 2003 by an additional 0.7%. As of June 30, 2003, American Eagle, owned by AMR Corp., parent of American Airlines, accounted for the greatest share of all domestic regional traffic at the Airport, with 51.5% of domestic regional passengers, followed by the US Airways Express group of regional carriers, which carried 22.9% of domestic regional passengers.

Low-cost carriers are playing a larger role at Logan Airport and throughout New England. As of June 30, 2003, the low-cost carriers providing service at the Airport were AirTran Airlines, America West, ATA and Delta Express/Song (Delta's new low cost subsidiary). They served 12 non-stop destinations and carried 10.7% of the Airport's passengers in fiscal year 2003. On September 30, 2003, JetBlue Airways announced it would commence service from Boston to Denver and three locations in Florida in January 2004.

In fiscal year 2003, total combined cargo and mail volume was approximately 817.8 million pounds. Between fiscal years 1999 and 2003, the total volume of air cargo and mail handled at the Airport decreased by 13.9%, and the volume in fiscal year 2003 decreased by 2.9% over fiscal year 2002. From fiscal year 2002 to fiscal year 2003, air cargo (small package/express and freight) decreased by 0.9%. A large percentage of the total volume of air cargo for the period was attributable to integrated

small package/express carriers, including Federal Express, United Parcel Service, Emery World Wide, ABX Air, Inc., Express One and Kitty Hawk Airlines. Integrated carriers accounted for 63.3% of total domestic and international cargo volume in fiscal year 2003, compared to 58.6% in fiscal year 2002.

SELECTED FINANCIAL DATA

Table S-3A set forth in the statistical section of the CAFR reflects Revenues and Operating Expenses for the ten most recent fiscal years, prepared in accordance with accounting principles required by the 1978 Trust Agreement. Information for each of the ten fiscal years in the period ending June 30, 2003 is derived from the Authority's financial statements for the respective fiscal years. (Note that in certain cases information from prior fiscal years has been restated to comply with current GASB standards.) Financial statements of the Authority for fiscal year 2003 and comparative data for fiscal year 2002, together with the report thereon of PricewaterhouseCoopers LLP, independent auditors, are included in the CAFR.

Tables S-3 and S-3A of the CAFR show the calculation of Annual Debt Service Coverage of the Authority, as provided under the 1978 Trust Agreement, which equals the ratio of the Net Revenues of the Authority to the Annual Debt Service. "Net Revenues" is defined in the 1978 Trust Agreement as the excess of Revenues over Operating Expenses; provided that for the purpose of the calculations, proceeds of passenger facility charges ("PFCs") have been excluded from Revenues because such proceeds have been excluded from Revenues under the 1978 Trust Agreement. PFCs are pledged to secure the PFC Bonds, pursuant to the PFC Trust Agreement, and certain specific information pertaining to the PFC Bonds, as required by the PFC Disclosure Agreement, is set forth in the separate 2003 PFC Disclosure Statement. As used in the tables, "Annual Debt Service" is equal to the "Principal and Interest Requirements" on Bonds (other than BOSFUEL Bonds) outstanding for the applicable fiscal year.

MANAGEMENT'S DISCUSSION OF HISTORICAL OPERATING RESULTS

Prepared in Accordance with the 1978 Trust Agreement

Total Revenues in fiscal year 2003 were $373.7 million, compared to $329.6 million in fiscal year 2002, while Operating Expenses were $223.8 million in fiscal year 2003 compared to $203.5 million in fiscal year 2002 resulting in Net Revenues of $149.9 million in fiscal year 2003. Logan Airport is the primary source of the Authority's Revenues, Net Revenue and Operating Expenses. For a discussion of the differences between the accounting principles required by the 1978 Trust Agreement and generally accepted accounting principles, see Note B to the Financial Statements. Revenues and Net Revenues do not include PFC revenues, which are required under federal law to be applied to certain capital projects at the Airport and are not pledged for the benefit of holders of the Bonds. PFC collections totaled $29.4 million in fiscal year 2002, and $29.1 million in fiscal year 2003.

The Authority derives revenues, in part, from activity-based sources, such as parking, rental car commissions, landing fees and international passenger fees. Furthermore, following September 11, the FAA instituted numerous security measures for all U.S. airports, including Logan Airport, Hanscom Field and Worcester Regional Airport, which increased the Authority's Operating Expenses. These measures include, but are not limited to, prohibiting all unticketed persons beyond security checkpoints, enhancing the search and screening of all passengers and baggage, increasing the number of security and law enforcement personnel, and restricting the parking of vehicles near terminals, including the closing of certain parking facilities at Logan Airport for a period of time.

Airport Properties

Airport Properties Net Revenues (Airport Properties Revenues less Airport Properties Operating Expenses), increased from fiscal year 2002 to fiscal year 2003 by 15.2%. The number of passengers using Logan Airport in fiscal year 2003 was 2.1% greater than the prior fiscal year. Landed weights were 1.5% less than the prior fiscal year. Parking exits were 5% over the prior fiscal year, and parking revenues were 17.8% greater than revenues from fiscal year 2002, due in part to rate increases. Logan Airport generated approximately $296.2 million of Revenue and incurred $163.8 million of Operating Expenses in fiscal year 2003, compared to $255.7 million of Revenues and $150.6 million of Operating Expenses in fiscal year 2002. Operating revenue and expense figures for Logan Airport stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Logan Airport under generally accepted accounting principles.

Unlike many airport operators, the Authority is not constrained by contractual arrangements with the air carriers serving the Airport governing the incurrence of aeronautical costs and the recovery of such costs in the landing fee and terminal rentals. Instead, landing fees and terminal rentals are set annually by the Authority on a compensatory basis to cover direct and allocated capital, administration, maintenance and operating costs. Accordingly, each October, the Authority establishes the landing fee for the Airport per thousand pounds of landed weight and the rental rates for the terminals, based upon historic capital costs and projected landed weights, and the budgeted direct and allocable indirect operating costs of providing these facilities for that fiscal year, plus an adjustment for the actual versus the prior year's budgeted revenues and expenses.

Landing Fees. Landing fee revenues at the Airport increased from $49.7 million in fiscal year 2002 to $69.0 million in fiscal year 2003. Landed weights decreased from 19,872,000 thousand pounds in fiscal year 2002 to 19,576,000 thousand pounds in fiscal year 2003. During this period, the landing fee rate per thousand pounds of landed weight increased from $2.35 to $3.76. The Authority's established practice is to include any shortfall (or surplus) in the landing fees collected compared to the actual cost of operating the airfield for the prior year in the landing fee for the next succeeding year. The landing fee for fiscal year 2004, established as of October 1, 2003, is $3.58 per thousand pounds of landed weight.

Parking Fees. Airport parking revenues increased from $64.0 million in fiscal year 2002 to $75.4 million in fiscal year 2003, reflecting a 5% increase in vehicle exits, augmented by a rate increase which went into effect in January 2003. The number of commercial parking spaces at the Airport is subject to a limitation imposed by the EPA.

Rentals. All leases with air carriers for terminal space at the Airport currently provide that the Authority may revise rental rates periodically, at the discretion of the Authority, to recover the actual direct and indirect capital and operating costs for such leased space. In addition, leases with certain carriers which are obligors of special facilities revenue bonds issued by the Authority and secured by a pledge of certain lease revenues are required to pay rent directly to the applicable trustee in an amount at least sufficient to pay the debt service on such bonds. In August 2001, the Authority entered into a long-term lease with Delta of Terminal A pursuant to which Terminal A has been closed and demolished, and Delta is undertaking the redevelopment of Terminal A. Thus, as of May 2002, the Authority ceased to receive rental payments for Terminal A. Terminal B had been operated under a net lease with the South Terminal Corporation, an airline consortium whose member shareholders occupied approximately two-thirds of the gates at Terminal B. This lease expired in November 2001, and the Authority now directly controls, operates and maintains all of Terminal B since that date. However, the Authority has entered into a lease of the western wing of Terminal B with US Airways for a term scheduled to end September 30, 2023, and the Authority entered into a similar lease of a significant portion of the eastern wing of Terminal B with American Airlines for a term expiring in 2010, which may be extended to 2015. Rentals from Terminal B were $13.1 million in fiscal year 2003. The Authority does not have long-term written

agreements with most of the airline tenants in Terminals C, D and E. Rental rates for such Terminals are set on a compensatory basis to recover direct and allocated capital, administration, maintenance and operation costs. Rental revenue from these three Terminals totaled $34 million in fiscal year 2003. Rental income from buildings other than Terminals totaled $21.6 million in fiscal year 2003 and income from land rentals produced an additional $8.7 million.

Concessions. Revenues from concessions increased from $41.4 million in fiscal year 2002 to $45.9 million in fiscal year 2003. Concession revenues include payments made by rental car companies which operate at the Airport and commissions from the following concessions: food and beverage, news and gifts, duty free shops, specialty shops, and other concessions.

Hanscom Field. During fiscal year 2003, Revenues from operations at Hanscom Field represented approximately 1.1% of the total Revenues of the Authority, and Hanscom's Operating Expenses constituted approximately 2.1% of the Authority's Operating Expenses. In fiscal year 2003, Hanscom Field generated $4.1 million of Revenue, with Operating Expenses of $4.6 million, yielding an operating deficit before debt service or other capital expenses of approximately $549,000. Operating revenue and expense figures for Hanscom Field stated in this paragraph do not include certain items, particularly expense items, such as interest, depreciation and amortization, properly allocable to Hanscom Field under generally accepted accounting principles.

Worcester Regional Airport. All payments made under the Worcester OA have been made from cash in the Improvement and Extension Fund.

Port Properties

Results of operations of the Authority's Maritime Department and its Business Development Department are separately stated. The Authority has traditionally experienced annual Port Properties operating deficits (Maritime and Business Development Revenues less Maritime and Business Development Operating Expenses). These deficits reflect the allocation of a portion of Authority-wide administrative and overhead costs as well as all direct costs.

In fiscal year 2003 the Revenue attributable to the Port Properties totaled approximately $43.1 million, or approximately 11.5% of the Revenues of the Authority, and the Port Properties accounted for approximately $46.7 million of Operating Expenses, or approximately 20.9% of the Authority's Operating Expenses. The Maritime Department accounted for $35.1 million of these Revenues and for $40.1 million of Operating Expenses, thus incurring an operating deficit in fiscal year 2003 of $5.0 million. The Business Development Department realized $8.1 million of Revenues, versus $6.6 million of Operating Expenses, producing an operating surplus of $1.4 million. Operating revenue and expense figures for the Port Properties stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Port Properties under GAAP.

Maritime. The Maritime Department has operated at a deficit in each of the fiscal years from 1999 through 2003. From fiscal year 1999 to fiscal year 2003, the operating deficit has averaged $2.7 million. Operating Expenses for fiscal year 2003 increased primarily due to an increase in stevedoring hours.

Over the period shown, the Authority implemented its Marine Terminal Optimization Program, consolidating container operations at Conley Terminal and automobile processing at Moran Terminal and Mystic Pier No.1. The Authority has also pursued a policy of seeking compensatory pricing, aggressively negotiating new lease terms when possible, and revenue development through more intense use of the

Port Properties and a marketing program designed to increase the volume of containers handled and the number of cruise passengers who embark or disembark in Boston, in an effort to mitigate these deficits.

Business Development. The Business Development Department, which manages the active redevelopment of the Fish Pier, Commonwealth Pier, Constitution Plaza and adjacent properties, and the East Boston Piers, experienced surpluses in each fiscal year from 1999 to 2003, except for fiscal 2002, as a result of significant increases in rental rates obtained both at the expiration and renewal of prior leases, and upon the achievement of higher and more intensive uses.

Bridge

In fiscal year 2003, Revenues from the Bridge were approximately $22.3 million, or approximately 6% of the total Revenues of the Authority. Bridge Operating Expenses for fiscal year 2003 were $8.7 million, yielding net revenue from Bridge operations of approximately $13.6 million. Effective January 1, 2002 toll rates were increased, with passenger car tolls increasing from $1.00 to $2.00. Operating revenue and expense figures for the Bridge operations stated in this paragraph do not include certain items, particularly expense items such as payments in lieu of taxes, interest and depreciation and amortization, properly allocable to the Bridge under GAAP.

Other

Investment Income. Investment income decreased from $13.0 million in fiscal year 2002 to $8.0 million in fiscal year 2003, reflecting smaller balances available for investment and lower interest rates.